Does Financial Information Drive Donations to Not for Profit Organizations?

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I. INTRODUCTION

We are all familiar with countless not-for-profit (NFP) organizations, such as schools, hospitals and charitable organizations. While their mission is one of public reach and service, it is important to remember that these organizations operate similar to businesses and need to be considered as such with regards to their transaction processing, financial reporting, tax filings and independent oversight. As some of the largest organizations in our country, they are easily overlooked from an accounting standpoint; however, their total contributions (revenue) can be substantial. For example, revenues for the Make-A-Wish Foundation exceeded $135,118,000 for year-end August 31 2008.[1] Individuals are more focused on for profit entities, so little time is spent understanding the financial aspects of a NFP organization.

According to the Financial Accounting Standards Board (FASB), the primary accounting rulemaking body, a NFP is defined as, “An entity that possesses the following characteristics that distinguish it from a business enterprise: (a) contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return, (b) operating purposes other than to provide goods or services at a profit, and (c) absence of ownership interests like those of business enterprises.”[2] Under this definition a NFP can fall into a plethora of categories and types such as: cemetery

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[1] "Make A Wish Foundation." *Make A Wish Foundation*. 2006-2010. Web. 6 Apr. 2010. <www.wish.org>.

[2] *Not for Profit Organizations, Audit and Accounting Guide*. New York, NY: AICPA, 2008. Print. p.1.

organizations, civic and community organizations, colleges and universities, elementary and secondary schools, federated fund-raising organizations, fraternal organizations, labor unions, libraries, museums, other cultural organizations, performing arts organizations, political parties, political action community organizations, private and community foundations, professional associations, public broadcasting stations, religious organizations, research and scientific organizations, social and country clubs, trade associations, voluntary health and welfare organizations, zoological and botanical societies.[3] Although that is a long list, it covers the wide variety of organizations that exist today.

More often than not, NFPs follow different standards and ways of accounting because their primary purpose is not to capitalize on making the most revenue or having the highest paid employees. Their mission is to generate funds in order to fuel a cause that is passionate to the employees, directors, members and participants of the organization. Although NFPs do want to receive funds and generate a large level of contributions, their main purpose is to provide a specific service to the public or a targeted market. Despite differing goals, NFP entities share common frustrations in accounting and financial reporting with for profit entities. The specifics may vary, but there are similar issues of how to report, what to report, and who will be looking at the accounting of the organization in order to decide if they want to donate.

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[3] *Not for Profit Organizations, Audit and Accounting Guide*. p.2

A second major difference between for profits and NFPs is the cultural aspect of each organization. It is important to remember that in NFPs individuals are often volunteers with no salary working for a cause they are passionate about. For profits are able to entice employees with higher salaries and benefits to encourage them to do great work. NFPs must rely on the fervor of volunteers and certain employees to contribute to the organization and help it grow and succeed.

This paper explores the fundamental accounting principles required for NFP organizations, analyzes the rationale behind these processes, and assesses how potential donors incorporate accounting information into their decision to give. As part of this exploration into NFP accounting primary research was conducted to test if program expense ratios and certification of accounting information play a role in donor's decisions to give. The research tested a challenge faced by many NFPs on how to target donors and successfully convert them into willing participants that will contribute and be part of the organization over a long-term horizon.

II. ACCOUNTING AND REPORTING FOR A NFP ORGANIZATION

Accounting is used in every company and business in the world today. It is essential in a well run organization to have the finances presented in a way to provide a snapshot of the organization, not only the individuals working at the company, but also for external users of the financial information. Accounting allows people to understand the finances of a company, and understand the performance in which they can then evaluate and understand the economic position, without having to look in detail into the structure of an organization. In financial accounting, the accountant focuses on preparing a set of financial statements, "In accordance with generally accepted accounting principles. The central outputs from financial accounting are audited financial statements such as the Balance Sheet and Income Statement that provides a scorecard by which a company's overall past performance can be judged by outsiders."[4] Within the company the Chief Executive Officer, Chief Financial Officer and Board of Directors are the people who use and sign off on most of the accounting and financial information.

In order to understand the complexities of NFP accounting, there are some basic concepts and terms that must be defined in order to help with the understanding and the background of NFP entities. The financial statements of a

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[4] Baskerville, Peter. "Basic Accounting Concepts-Definitions 1." Connexions, 5 Jan. 2009. Web. 3 Apr. 2010.

NFP organization must paint a picture of the organization for outsiders looking in and therefore must contain important information.

Overall the financial statements of a NFP are essentially the same as for a profit-making enterprise. However, titles and terms differ along with the reports that are public information. Because of restrictions often placed on certain assets (to be discussed later in this section), NFPs use a fund based accounting in order to distribute the assets to specific funds and account for the monies separately.[5] But NFPs still have the basic types of financial statements. They are identified under SFAS 117 "Financial Statements for Not-for-Profit Organizations"(section 958 of the newly adopted Accounting Standards Codification) which specifies, " The three major financial statements are (1) a statement of financial position, (2) a statement of activities, and (3) a statement of cash flows.[6]

The Balance Sheet in a NFP is referred to as the Statement of Financial Position; it shows the assets and liabilities of a company at a single point in time, usually the organization's year end. This does not need to be December 31 and in fact in most cases is June or August.[7] NFPs use the summer months June-September as their year-end for several reasons. The first is that audit and tax services are cheaper in these months because it is not during accounting firms'

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[5] Baker, Richard E., Jeffery, Cynthia G., King, Thomas E., Lembke, Valdean C. "Chapter 19 Not-For-Profit Entities." *Advanced Financial Accounting*. 8th ed. New York, NY: McGraw Hill-Irwin, 2009. 929-72. Print. p.929

[6] *Financial Accounting Standards Board*. 2010. Web. 13 Apr. 2010. <http://www.fasb.org/home>.

[7] Dropkin, Murray, and James Halpin. *Bookkeeping for Nonprofits: A Step by Step Guide to Nonprofit Accounting*. San Fransisco: John Wiley and Sons, Inc, 2005. Print. Jossey-Bass, a Wiley Imprint.p.149

busy season. Second, NFPs receive much of their contributions and want to focus their fundraising efforts during the winter or holiday season and do not want to have their year-end during the winter months.

The format of this statement is set up starting with regular assets, then liabilities and net assets, which can be defined as the amount of money donated/made by the NFP subtracted by the NFP's expenses or the amount of money a NFP has to put towards program activities. Net Assets closely equates to owner's equity in the Balance Sheet of a for profit company. The last segment of the statement breaks down net assets into the three categories, unrestricted, temporarily restricted, and permanently restricted (discussed in detail later) to total the net assets and liabilities for the organization. (See exhibit A, for a full example).

The Income Statement in a NFP is referred to as The Statement of Activities. This statement provides a "summary of transactions for the accounting period that resulted in a change in net assets from the beginning of the period to the end of the period. The ending net assets equal the net assets total on the balance sheet. This Statement is important because it discloses all the contributions such as revenues and support and includes the related expenses. At the end of the statement it also shows the total net assets, as defined above (see exhibit A).

The third required financial statement carries the same name as it's for profit counterpart, The Statement of Cash Flows. This statement "presents the summary of transactions for the accounting period that resulted in a change in cash and cash equivalents from the beginning of the period to the end of the period. The ending cash and cash equivalents total matches the cash and cash equivalents total on the balance sheet."[8] It is important to look at all three statements when evaluating a NFP because although some statements may share similar information they all play a vital role in assessing the financial stability of NFP organizations.

A supplemental schedule prepared by most NFPs is the Schedule of Functional Expenses. It details all the expenses the NFP incurs encompassing general expenses, administrative expenses, program expenses, and fundraising expenses summarized in a detailed chart (see exhibit A).

The goal of reporting for a NFP is to keep track of all the accounts and money received. "Each transaction represents an element of information important to staff members, management, board members, funders, donors, volunteers, and community constituents. Timely and accurate information provides stakeholders with feedback about the financial health of the organization."[9] Often these financial reports are publically issued through an organization's annual report and their website.

The overall objective of NFP accounting is to provide a snapshot into the organization's mission. By looking at the financial statements users hope to

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[8] Dropkin, Murray, and James Halpin. p.150
[9] Dropkin, Murray, and James Halpin .p.1.

understand what the organization expends, as well as the total overall contribution that they will put toward their specific cause.

A second key aspect is a NFP's working capital. Working capital is calculated as current assets minus current liabilities. This will then be compared to the organization's annual cash inflow and cash outflow. If net cash outflow = $10,000 per month and working capital = $40,000 then the organization has the potential to survive four months if no new capital is created.[10] This is a great statistic to look at because it gives a clear picture as to the financial viability and sustainability of the organization. The longer an organization can sustain itself with no new capital the larger and more productive it is.

Often management, the board, and contributors use other information to evaluate the financial stability of NFPs including various ratios. A common ratio is the functional expense ratio. This ratio looks at the comparison of how expenses are distributed among various parts of the NFP, for example general, administrative, program, and fundraising expenses. Users will also examine the mix of revenue sources, and finally users will evaluate actual performance versus budget performance and investigate significant variances.

After understanding the types of reports issued in a NFP it is important to recognize that the main source of "revenue" is contributions, which have a unique set of rules. In for profit organizations, revenues represent the amount generated from the organization's activities; however, in a NFP organization revenues also

[10] Dropkin, Murray, and James Halpin. p.148

include the amount of funds/donations that are being contributed to the organization to support its activities. The various sources of revenue/contributions for a NFP include donations, endowments, fundraising activities, pledges, matching gifts, and grants. This revenue category is labeled support. NFPs' revenue may fall solely in one category or include a mix of both. For example, a hospital will generate revenue from its services, but may also hold various fund raising activities to supplement its service revenue.

In order to account for all the various types of support and revenues that a NFP has and must account for, they are categorized in the chart of accounts. The unified chart of accounts (UCOA) has subcategories that cover the operations of most NFP organizations.[11]

For example, each type of revenue, contributions, grants, membership dues, special events and rental, has its own set of rules and regulations for reporting. These are governed by SFAS no. 116 and under the new codification system section 958.[12] When contributions are received in any form, donors have the option to target their dollars to specific activities. NFPs are required to disclose these decisions on their financial statements. These contribution decisions are disclosed under Net Assets on the Statement of Financial Position and under revenues on the Statement of Activities.

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[11] Dropkin, Murray, and James Halpin. p.30
[12] <http://www.fasb.org/home>.

There are three types of net assets or net contributions: permanently restricted net assets, temporarily restricted net assets, unrestricted net assets.[13]

Make-A-Wish Foundation Combined Statement of Activities
Year Ended August 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Contributions	$109,319,692	$24,243,414	$1,555,207	$135,118,313
Internal special events	45,438,892	1,548,824	-	46,987,716
Less cost of direct benefit to donor	(12,575,076)	(93,253)	-	(12,668,329)
	32,863,816	1,455,571	-	34,319,387

The first, *unrestricted contributions*, are given without any conditions from the donor. They are usually used for the organization's general operations. Second, *temporarily restricted contributions*, are given by the donors for a specific purpose, time period, or both and usually detailed in a contribution agreement between the donor and the organization. Under this class of contributions, time restrictions indicate that the assets will not be available until an amount of time has passed. Purpose restriction means that the resources or assets can only be used for a specific purpose within the organization. An example would be if someone were to donate money to a hospital but only wanted the money to go towards the breast cancer research wing. Third, *permanently restricted contributions* are usually regular endowments donated to the organization. These contributions are intended for a specific item or time designated by the donor that usually does not expire. The point is for the

[13] Dropkin, Murray, and James Halpin. p. 20

contribution, often an endowment, to be a permanent investment by the donor and allows the NFP to use the interest on the investment.[14]

These are the main disclosure information for NFP however, there are some unique challenges NFPs face when categorizing their finances into these categories. Two specific areas, which pose difficulty to NFPs, are in kind donations and uncollectible pledges.

[14] "Managing Restricted Funds." *Nonprofits Assistance Fund: Helping Nonprofits Thrive*. Web. 13 Apr. 2010. <http://www.nonprofitsassistancefund.org/files/MNAF/ArticlesPublications/Managing_Restricted_Funds.pdf>.

III. UNIQUE CHALLENGES IN A NFP ORGANIZATION

There are many challenges associated with NFP organizations due to both financial and cultural differences. Certain accounting principles and transactions complicate the bookkeeping for these entities. Two specific areas of complexity related to contributions are In-Kind Donations and Uncollectible Pledges.

In-Kind Contributions are recorded as a source of revenue, along with a corresponding asset (i.e., inventory, furniture). Contributed services are services donated to a NFP. An example would be an airline providing free flights for a family to travel to Disney World, or a rental car service providing free transportation to a daylong event. These contributed services are recognized at fair value if the services require specialized skills, if the providers of the services possess the specialized skills, and if the organization would purchase the services if it were not donated.[15] In kind contributions are accounted for under SFAS Statement 116, which states, “Contributions of services shall be recognized if the services received (a) create or enhance nonfinancial assets or (b) requires specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.”[16]

The reason that In-Kind Donations pose such a large difficulty to the NFP world is often management does not know how to correctly account for items that are not expenses. They receive these items as a donation, but the donations are not monetary, therefore there is no recording of cash value. Essentially there is

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[15] Dropkin, Murray, and James Halpin. p.53
[16] Dropkin, Murray, and James Halpin. p.33

not a normal transfer of funds for In-Kind Donations. For example, if a for profit entity were to purchase advertising space they would pay for the advertisement, thereby reducing their cash and recognize an expense. NFPs often receive advertisements as In-Kind Donations. They do not need to reduce cash because essentially there is no monetary payment. Instead the NFP recognizes the donated service as a source of revenue while simultaneously recognizing an expense.

Uncollectible pledges are a second common challenge for NFPs. A pledge is when a person would promise to an organization that they would donate money in the future. There is no monetary turnover at that time. A committed pledge is when the organization is positive that they will receive the money and includes the amount in their financial statements regardless if the money is in their possession or not. Uncollectible pledges are very similar to accounting for uncollectible accounts receivable. Management estimates the amount of uncollectible pledges that the organization does not expect to receive, and must write off the pledge only if the pledge was previously recorded as revenue and as a pledge receivable.

For example, Matt has pledged one million dollars every year for five years to a specific NFP, so in the sixth year when Matt pledges the NFP records this pledge as revenue even though Matt has not officially signed the document transferring the money. The NFP has done this because it is considered a committed pledge. In contrast, assume Matt is a new donor and he pledges one million dollars to an organization, and the organization assumes it is a committed pledge and records it as revenue. If one year later Matt decides he does not want to donate to that organization, the NFP will now have an uncollectible pledge and must write it off. Accounting for uncollectable pledges requires approval from different members of the organization, and depending on the size of the bad debt, it may require a member of the board of directors or the office manager in a small NFP to sign off on the paperwork.[17]

Culturally NFPs face other challenges regarding the attitude of employees. NFPs do not have the same payroll and budgets that for profits have in order to offer bonus and pay employees large sums of money to entice them to work at their optimal level. NFPs rely heavily on volunteers hoping that they are dedicated and passionate about the cause and working at an optimal level. This affects the organization in many ways including internal work environment and the quality of output. If the volunteers do not produce work to the best of their ability, the other functions of the organization cannot occur. Because of this, in the internal control structure management has a larger role in making sure everything runs smoothly and there are no instances of fraud. Internal control is one of the largest issues concerning management and something that a lot of money and time is devoted to. It is the need to make sure that management is correctly running the organization and its employees follow all rules and guidelines. This is difficult for NFP organizations because they do not have the same transactions that for profits have. Often NFPs collect money from outside

[17] Dropkin, Murray, and James Halpin. p.75

or in stores, which often allows an employee to pocket a few dollars. NFPs also often receive donations through the mail rather than online. Online donations are easy to account for because it is a computerized system, but the need for documentation of mailed donations is very important. Fraud is difficult to detect in a NFP for these reasons, therefore it is important to have trustworthy honest management and auditors who take extra time to look into the internal controls.

V. TAX FILINGS REQUIRED BY NFP ORGANIZATIONS

The IRS uses the tax requirements as a way of measuring the performance of an NFP by issuing a tax-exempt status and allowing people to access the information requested on the form 990 online. This can be both beneficial and detrimental to the evaluation if a NFP is performing at a premium level. Sometimes filling out the dominant tax form, form 990; gives a truthful representation of an NFP and other times it can make the bad look great and the great look bad. As stated by Jody Blazek, "[It is] crucial that these annual returns be prepared, not only as a financial document, but also as a tool for communicating an organization's mission and accomplishment to the public."[18]

The IRS forms are public documents and since 1999 it is required that if someone wants to look at an organization's form 990 the NFP is required to present it, and it can also be given to anyone willing to pay a fee. In 2008 the IRS recognized 1.8 million organizations which filed the Form 990.[19] There are over 9 variations of the form depending on grant level and organization type. Each form is titled as a form 990 followed by a number or letters signifying the type of form that specific organization has filled out. Most exempt organizations are afforded special tax and legal status."[20] They are usually relieved from income, sales, ad valorem, and local property taxes.

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[18] Blazek, Jody. *IRS Form 990, Tax Preparation Guide for Nonprofits*. Revised Edition ed. Hoboken, NJ: John Wiley and Sons, Inc, 2004. Print. p. 1

[19] Murphy, Jamie. "Learning the Ins and Outs of Form 990." *New York State Society of Certified Public Accountants* 15 Oct. 2009: 9. Print.

[20] Blazek, Jody. p. 5

The reasons for filing different forms are due to different amounts of monetary grants awarded to organizations, the amounts that organization can be awarded frequently fall between $25,000 and $100,000 but are not to exceed $250,000. If an organization is awarded less than $25,000, they do not need to fill out the form; many religious organizations fall in this category.[21]

Most grant making foundations are subject to the form 990 and supplemental forms since they are given certain monetary grants. “The world of tax-exempt organizations includes a broad range of nonprofit institutions. All exempt organizations share the common attribute of being organized for the advancement of a group of persons, rather than particular individuals or businesses.”[22] It is important for NFP organizations to be tax exempt because many people will only donate to charity if the charity is registered as a tax-exempt organization and the individual is able to receive tax deductions for their donations.

The form 990 is laid out as follows; the opening section is contact information for an individual at the organization followed by the primary purpose or mission of the organization. This paragraph is important to fill out correctly and concisely because people will read this in order to understand the purpose of each organization. Part one of the form is divided into four sections: activities and governance, revenue, expense, net assets and fund balances; part two requires a signature confirming part one is correct. Part three is the statement of program

[21] Blazek, Jody. p. 5
[22] Blazek, Jody. p. 5

services and accomplishments; it is in this section grants will be disclosed. Part four is a checklist to make sure that the organization followed the schedule that it laid out at the beginning of the year. Part five is statements regarding other IRS filings and tax compliance. Part six includes questions relating to governance, management and disclosure. Part seven asks the organization to include information about the compensation of officers, directors, trustees, key employees, highest compensated employees, and independent contractors. Parts eight, nine and ten are the Statement of Revenue, Statement of Functional Expenses and the Balance Sheet, respectively. Lastly part eleven is a checklist pertaining to the Financial Statements and Reporting making sure that the organization followed regulations such as filling out form 990 and adhering to certain audit requirements. (See exhibit B for an example of the Form 990)

This form is usually due to the IRS four and half months after the specific organization's year end date. Therefore, if an organization has a year end date of August 31st, the form 990 would be due January 15th.

Filling out the form 990 is important to the organizations because it requires the allocation of costs as program services, management and general, or fundraising. Within each subcategory of costs each actual item is detailed. It is best to charge costs directly because it makes accounting for these costs much easier and it is easier to adhere to the requirements set forth by the OMB (OMB circular are specific requirements for auditing NFP organizations dictated by the

Office of Management and Budget of the U.S. Federal Government).[23] All of this information helps when assessing the financial health of a NFP.

With form 990 you need to properly record the revenues and expenses in the appropriate lines of the forms. Within expenses the three types that are reported are program, administrative, and fund-raising. Regulatory agencies "generally recommend that the sum of an organization's administrative and fund-raising costs equals no more than 25 percent of total expenditures. Thus the desired proportion for spending on programs and mission-related activities is 75%."[24]

NFP organizations should generally use the same accounting method on the return to figure revenue and expenses as it regularly uses to keep its books and records; many use the cash method for simplicity. Once a method for accounting is adopted you cannot cancel or change the method on the form 990, if the organization wants to change it they must fill out another form to be submitted.

The Internet really changed the printing of the form 990 and submitting it to the IRS for publishing. Now there are websites which publish the form 990s for organizations so that people can see the NFPs' finances and exemptions. Guidestar is a popular database to access filed IRS 990 forms and provides images of the 990s. Guidestar and other websites allow users to "view the reports online to compare the ratios of program to administrative costs, review donations

[23] Dropkin, Murray, and James Halpin p. 99
[24] Blazek, Jody. p. 13

or compare executive salaries at nonprofits nationwide."[25] It "is the most comprehensive database of nonprofit financial information available, but unlike the NCCS (National Center for Charitable Statistics) data, Guidestar data must be hand collected."[26] Data being hand collected just means that the NFPs are not required to submit their forms to Guidestar but instead Guidestar will ask for and collect a scanned copy of the information.

The changes in form 990 and the ability to access the forms over the Internet have been good for NFPs, as it allows them to publish their information and hopefully gain more donors because of the information on the forms. The shift will most likely continue and experts believe that the move to more transparency between NFP and their reporting will only be positive rather than negative. Form 990 is not the only requirement that NFPs face. Along with specific tax guidelines NFP organizations must follow certain audit objectives that differ from for profit entities.

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[25] Murphy, Jamie.

[26] Krishnan, Ranjani, Michelle H. Yetman, and Robert J. Yetman p. 403

VI. AUDIT REQUIREMENTS OF NFP ORGANIZATIONS

Similar to for profit entities, many NFPs are required to be audited. "Auditing is the accumulation and evaluation about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person."[27] Essentially auditing is the act of looking at an organization's overall financial statements and management's ability to run an efficient and effective organization that follows all the guidelines established by the governing boards. This is often a challenge for many reasons, not only are there different requirements the auditors need to follow, often times audit firms do not want to take on the audit engagement of NFPs because the engagement does not usually yield a positive realization for the firm.

NFP organizations, similar to for profit organizations, will also be assessed on their financial statements, internal control, and overall maintenance of the organization. Similar controls and tests are used for both types of organizations.

Every industry has specific regulations and guidelines for performing an audit. NFPs are no different; they have certain requirements that auditors are required to follow which are established by the American Institute of Certified

[27] Arens, Alvin A., Randal J. Elder, and Mark S. Beasley. *Auditing and Assurance Services, An Integrated Approach*. 13th ed. Upper Saddle River, NJ: Prentice Hall Is an Imprint of Pearson, 2010. Print.

Public Accountants (AICPA). In addition to an audit of the financial statements, the main requirements are the Single Audit Act, OMB Circular A-122 and A-133.

OMB Circular A-133, also considered the single audit act of 1984, and Single Audit Amendments of 1996 "set forth standards for obtaining consistency and uniformity among federal agencies for audits of states, local governments and non-profit organizations expending federal awards."[28] This act requires that nonfederal entities that expend $500,000 or more in a year must have a financial statement audit. Auditors are required to plan and conduct their audit in accordance with GAAS (Generally Accepted Auditing Standards) and GAGAS (Generally Accepted Government Auditing Standards). Auditors are required to make sure that the financial statements are presented fairly and accurately. They are also required to perform tests in order to see if the internal controls are efficient and effective and that the organization has a low assessed risk for major programs. Lastly auditors must make sure that the NFPs follow all laws and regulations specifically pertaining to them.[29] The information must be reported as an opinion and the auditors must express if the nonprofit is a high risk or low risk organization.

The OMB Circular A-122 is one of the specific regulations required by auditors when auditing NFPs. The purpose of this regulation is to determine the

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[28] "Circular No. A-133 Revised to Show Changes Published in the Federal Register June 27, 2003." *The White House*. Office of Management and Budget, 2010. Web. 6 Apr. 2010.
[29] American Institute of Certified Public Accountants, 13 Apr. 2010. Web. 13 Apr. 2010. <https://www.aicpa.org/default.aspx>.

costs of grants, contracts, and other agreements with NFP organizations.[30] This provision is used in order to establish standards of allocation of costs, allowability of costs, and reimbursement of costs. Essentially this standard helps to establish how NFPs disclose costs and how the auditors should evaluate their controls. Under this Circular there are three attachments: general principles, selected items of cost, and NFP organizations which are not subject to this circular. Most of the NFPs that do not use this circular include large research and laboratory facilities.

Both OMB circulars provide frameworks as to what is acceptable for NFP organizations and the circulars allow auditors to have a point of reference in order to understand the specific requirements that are expected by the AICPA, GAAS and GAGAS of NFP organizations.

The choice of auditors for NFPs is based on similar characteristics of that of for profit organizations. Larger auditing firms are often the first choice due to the better training and larger number of employees and a larger client base allowing them to be more independent from the clients. In turn it means that organizations are willing to pay higher fees in order to hold on to the larger auditing firms.[31]

Because NFPs do not receive the same amount of revenue that for profits do and they are in fact not for profits, audit fees are something that is difficult for these types of organizations. They cannot afford the same types of auditors that

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[30] "Circular No. A-122." *The White House*. Office of Management and Budget. Web. 26 Feb. 2010. <http://www.whitehouse.gov/omb/circulars_a122_2004/>.

[31] Tate, Stefanie L. p. 49

large, for profit entities can, and therefore, NFPs may be required to constantly change auditors in order to minimize or reduce their audit fee. On the other side however, because NFPs must abide by certain regulations and compliance forms they are often willing to pay the higher audit fees to compensate for higher quality in their audit. One way NFP organizations are able to be charged for lower audit fees is by having their year end during the summer months when the auditors are less busy and therefore fees are cheaper.

As Chris Gaetano states in his article in *The Trusted Professional*, a publication of The New York State Society of Certified Public Accountants, NFPs have four main categories in which they need to improve which are "legal compliance and public disclosure, effective governance, strong financial oversight and responsible fund raising. Polanco [Hilda, Not-for Profit Organizations Committee member] suggests CPAs can be of great assistance to nonprofits by becoming familiar with these principles."[32] CPAs must follow specific rules and regulations when auditing NFPs that are directed towards the regulations NFPs face. It is their responsibility to make sure each NFP is running honestly and effectively in order for each organization to gain the contributions needed to stay alive. In order to follow the rules and provide opinions the Continuing Professional Education requirements for auditors have become heightened. This means auditors need more continuing education in order to correctly assess NFPs. This is a difficult task especially when auditors need to be retrained in order to

[32] Gaetano, Chris. "Conference Covers Good Governance Principles for Nonprofit Clients." *The Trusted Professional* 15 Feb. 2010: 8. Print.

perform the audit on NFPs. The benefit of the continuing education and re-training is the auditors on each case are the most experienced and have the most knowledge in order to make the NFP organizations run their best. It also provides assurance to individuals wanting to donate that the financial statements and the day-to-day operation, including management, are run by audited and trustworthy individuals; a concern of many people when looking to donate to a charity.

VII. EXPENSE RATIO

Given that there is so much financial information that charities often distribute or post online, it is hard to determine what information is actually effective and helpful to contributors. Are the financial statements helpful in determining a good NFP or may other information or reports be more beneficial?

In general measuring a NFP by a profit ratio is problematic. A profit ratio would be a ratio that laid out all the profits, revenues minus expenses. "As the FASB noted, 'the ability to measure service accomplishments, particularly program results, is generally underdeveloped (FASB 1980b)'"[33]. Therefore NFPs use other measurements to help explain their effectiveness. Donors are more concerned with information relating to stewardship than profit; donors want to understand how the money they are donating is spent throughout the organization.

As previously discussed, the driving force in a NFP organization is donations. In order to secure these donations, as their primary source of revenue, NFPs need to appeal to the public because people question if the dollars donated are effectively used. Charity Navigator (http://www.charitynavigator.org/) is a popular website that ranks different NFP organizations using numerous characteristics. They provide lists for most donations, top 10 celebrity rated, 10 most popular, and many more. This allows people to research charities to understand their background and mission statement, as well as their expenses and

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[33] Tinkleman, Daniel. "Factors Affecting the Relation Between Donations to Not-for-Profit Organizations and an Efficiency Ratio." Ed. Paul A. Copley and George D. Sanders. *Research in Nonprofit and Governmental Accounting* 10 (1999): 135-61. Print. p. 138

revenues. People often question where their money is going, and the expense ratio is a key driver for someone deciding if they should make a donation.

Most often the expense ratio is used as a main factor in determining the productivity, efficiency and effectiveness of a NFP. The expense ratio is a ratio that shows the amount of money (or a percent of the amount of money) an organization allocates to different expenses. Examples are the amount that goes directly towards the organization's cause, the amount towards general administrative expenses, and the amount towards fundraising expenses. This helps management, employees, directors, contributors and others to evaluate the organization and essentially could help someone decide if they wanted to make a donation.

Linda Parsons, a professor at the University of Alabama, has done substantial research in this specific area of accounting and charitable organizations. From her research she has been able to draw very interesting conclusions in relation to the expense ratio and donor decisions. She was able to find that donors are more willing to contribute if they feel that the organization is "deserving" of their money or there is a promise of "matching gifts."[34] Often donors want to feel as though they have an emotional connection to the organization or a reason that a specific charity deserves their money more than others, usually stemming from a personal relationship or a moving story.

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[34] Parsons, Linda M. "The Impact of Financial Information and Voluntary Disclosures on Contributions to Not for Profit Organizations." *George Mason University, Behavioral Research in Accounting* 19 (2007): 179-96. Print. p. 180

"Many of the motivations for charitable giving do not involve seeking evidence that a recipient NFP organization uses contributed resources efficiently or effectively."[35] People are often asked to support organizations in which they know very little about, and although they may be given a background story or some information, there is often no accountability in the request to prospective donors.

Professor Parsons describes the main factors of an organization's ability to run smoothly and gain the donations needed are efficiency and effectiveness.

"Efficiency is defined as the degree to which NFPs direct their available resources to the organization's mission."[36]

"Effectiveness, defined as the degree to which the wants and needs of the NFP's beneficiaries are satisfied, is not necessarily measured by looking at the amount of funds received and expended. Most often, supplemental disclosures of nonfinancial data are the best way to provide information about organizational effectiveness."[37]

She then poses the question if reporting financial information differently will directly affect contributions based on the level that people believe an organization runs efficiently and effectively.

Often NFPs misreport their expense ratios in order to present the organization in a better light. There are many different ratios in which the

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[35] Parsons, Linda M. "The Impact of Financial Information and Voluntary Disclosures on Contributions to Not for Profit Organizations." p. 180

[36] Ibid

[37] Ibid

information can be presented. One is the program ratio, which is "the amount of program expense divided by total expense; the higher the program ratio is the larger proportion (or amount of money) or total expenses are allocated toward the charitable mission or goal. Various charity watchdog agencies suggest that higher program ratios are indicative of more efficient and effective organizations."[38]

The second type of expense ratio is the fundraising ratio, this is the amount of fundraising specific expenses divided by total donations. "Lower fundraising ratios are suggestive of higher fundraising efficiency because few donations are consumed by the cost of the fundraising activities."[39]

These ratios provide a lot of information to agencies, state and national government, and individuals who are charitable givers. However, it is possible for NFPs to manipulate these numbers to appear that they have higher ratios in order to seem that more donations go to the activities of the participants or charity rather than employees and maintenance. The place where the misreporting often occurs is on the IRS Form 990. Yetman, Yetman and Krishnan have researched the misreporting of the expense ratio and concluded that NFPs tend to report zero fundraising expenses. "A nonprofit can improve its program ratio by shifting costs from fundraising expenses to program expenses."[40] Over 50 percent of all NFPs that receive donations also report zero fundraising expenses.[41] This in turn slightly manipulates their data and presents the expense ratios differently to the

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[38] Krishnan, Ranjani, Michelle H. Yetman, and Robert J. Yetman. p. 400
[39] Krishnan, Ranjani, Michelle H. Yetman, and Robert J. Yetman. p. 400
[40] Krishnan, Ranjani, Michelle H. Yetman, and Robert J. Yetman. p. 402
[41] Krishnan, Ranjani, Michelle H. Yetman, and Robert J. Yetman. p. 418

public. Donors must rely on the auditor's opinion to ensure credibility of the information they use to make donation decisions. This background information on expense ratios generates the question: will the level of the expense ratio (high or low) have an effect on whether or not people are more likely to donate to a charity?

After reading Parsons and Yetman, Yetman, and Krishnan, it is apparent they have been able to draw a lot of conclusions through surveying individuals and researching if the financial statements and accounting information that is required by NFPs is in fact a useful tool in measuring what constitutes a well run NFP entity. Generation Y is constantly improving the world and promoting NFPs, but does my generation actually pay attention to what represents a well run NFP? I decided to conduct my own research, modeled after Parsons, to gather data about the expense ratio and contribution amounts to see how my generation approaches charitable giving.

VII. RESEARCH

I chose to analyze the relationship between donation level and two pieces of financial driven information: an NFP expense ratio and certification of the NFP by an overarching organization that requires audited financial statements. The conclusions I predicted to draw were:

1. If positive financial information is released and donors are able to see the positive impact contributions have on the operations of the organization, people will be more willing to donate in the future.
2. If people are given more information such as the effectiveness of contributions, donors are more likely to donate.
3. Certification matters in the reliability of NFP organization financial information.

The format of the survey conducted featured the NFP organization named Little Adventures. This fictitious NFP organization was part of the Whitman School of Management's Senior capstone course in which teams of students create a company, research its industry, design a formal business plan, and present the final project to a panel of judges. My team competed in the NFP sector of the competition during the Fall 2009 semester. Little Adventures is a NFP organization devoted to providing day long "adventures" to children with autism, mental retardation, and natural born orthopedic impairments, along with their families. The day trips include canoeing, snowshoeing, dog sled racing, pirate ship cruise, zip lining, and horseback riding. These adventures are something that children with these illnesses may never have the opportunity to try and the fun loving community of Little Adventures provides a way for families and their children to interact and develop friendships and support that can last a lifetime.

By using this organization I hoped that the participants in my survey would find some connection to helping the children, but that the organization may be enough removed from people's personal lives that the variables in question such as expense ratios and government standards will have an affect on what people decide they would potentially donate to the organization.

I formatted this survey by manipulating two different variables. The first variable I manipulated was the expense ratios for Little Adventures and the second variable manipulated was if the organization followed the regulations and was certified by the National Center for Charitable Giving.

Methodology

To conduct this experiment I formed four survey types by using the variables described previously (See exhibit C-G for actual survey). Each questionnaire included a cover letter addressed to a person asking for their help with the organization. The cover letter gave background information on the organization. The second page was the expense ratio presented in a pie chart as well as the numerical value of each dollar; this ratio is based on the fictitious program ratio calculation based on adventure costs in comparison to fundraising costs and general expenses. For example one survey's costs included \$.93 program activities, \$.05 general expenses, \$.02 fundraising expenses. The second page also included the statement as to whether the NFP had been certified by the National Center for Charitable Giving.

Once the participant reviewed the cover letter and financial information, they were asked to identify what percent of a fictional $1,000 they would donate to Little Adventures. The respondents were told that all of the $1,000 could only be used for charitable giving and none of the money could be kept for personal savings. If I were to redesign the survey I would ask the participates to choose what portion of the $1,000 they would give to Little Adventures, versus the rest to a second worthy charity. The low end of the scale actually ends at giving 25% to Little Adventures, which is fairly high. Requesting an actual dollar amount of altering the scale maybe have yielded different responses. On the final page of the survey individuals were instructed to not return back to the previous pages and to respond to two statements using a 1-5 scale, (1=strongly disagree, 5=strongly agree). The two statements were:

1. The expense ratio is an important factor in selecting my donation,
2. The fact that Little Adventures has (or has NOT) been certified by the National Center for Charitable Giving makes Little Adventures more (less) credible.

The respondents were also provided an open-ended question to suggest any additional information about Little Adventures that would make them more likely to donate to Little Adventures. The participants were aware that the organization is a fictional NFP and the expense ratios and certifications were not valid.

Analysis and Results

The surveys distributed totaled 155; however three were unable to be used due to invalid information or blank questions, therefore, 152 were countable towards the data. In order to avoid trends the survey was administered to both Martin J. Whitman School of Management students and students in other schools at the University. This way any trends that involve being aware of financial statements would be eliminated.

The survey was presented during specific class periods and took approximately ten minutes to be completed. The survey was voluntary and anonymous besides the basic demographic information. The survey did not ask for age but all respondents were currently enrolled in Syracuse University. Originally I was hoping to draw conclusions about the type of school the volunteer was enrolled in; however, it was difficult to get a variety of students in different schools. The sample ended up including 108 students enrolled in the Martin J. Whitman School of Management at Syracuse University, nineteen students enrolled in other schools at the University, and 25 students did not answer. Several participants left the question on gender and school blank, but they were not eliminated sample if the primary survey questions were completed.

The survey respondents totaled 60 males and 85 females and 7 people left that area blank. There were 37 A surveys distributed, 39 B, 39 C, and 37 D, allowing for an equal mix of all surveys to be in the distribution. The four survey types are described below:

	High Expense Ratio	*Low Expense Ratio*
Certified by the Nation Center for Charitable Giving (audited)	**A**	**C**
Not certified by the National Center for Charitable Giving (not audited)	**B**	**D**

The response expected prior to administering the survey was that the different survey types would result in different donation responses.   Survey A included a high program expense ratio and certification therefore it was expected that the donation rate would be highest for this group. However, since the organization seemed to be well run it is possible that the expense ratio and certification would not matter to this group. Survey B included a high expense ratio but no certification, so I expected donations to be lower than for Survey A, but likely still at a high level since the expense ratio was so good. Predicted responses for surveys C and D were that the donation rates would be minimal and both expense ratio and certification would play a significant role in people's donation amounts and how they assess the charity.

Students were asked to choose their donation level; the choices were 0-25%, 25-50%, 50-75% or 75-100% of the $1,000. After tabulating the surveys and performing analysis on the information, the overall average of donation level of all the surveys combined was 25-50%. The average response to question 1 was a 3 (the expense ratio did not play a part in selecting their donation level). The average response to question 2 was also a 3 (the certification or no certification did not play a part in their donation level). However, this information is difficult to draw conclusions from because there were four different surveys; it is easier to look at the breakdown by survey type.

Categorizing the survey by type revealed the following:

Survey Type	Data	Total
A	Average of Donation Level	2.1
	Average of Question 1	3.3
	Average of Question 2	3.8
B	Average of Donation Level	2.0
	Average of Question 1	3.2
	Average of Question 2	3.0
C	Average of Donation Level	1.9
	Average of Question 1	3.0
	Average of Question 2	3.8
D	Average of Donation Level	1.9
	Average of Question 1	3.1
	Average of Question 2	3.3
Total Average of Donation Level		2.0
Total Average of Question 1		3.2
Total Average of Question 2		3.5

The donation level average was the same for each type of survey. I anticipate that this was because individuals did not want to donate all their fictitious money to one charity, or felt as though they did not have enough information pertaining to the charity. The results were disappointing to find that the average for all four surveys in response to question 1 was a 3.2. This means that the difference in amount spent on Adventure program activities did not make a difference in the amount people would donate. This does not mean there were not outliers in the data of individuals who seemed to understand that if they had survey D ($.45 went towards Adventures services) they did not want to donate money to Little Adventures and did say that the expense ratio was important.

Both surveys A and C were certified by the National Center for Charitable Giving, whereas Survey B and D were not certified. The average answer for question 2 for both A and C was a 3.8, in contrast to the average for survey B and D which was a 3.0 and 3.2, respectively. This was somewhat surprising because I would have thought the fact an organization was not certified would have triggered the response that certification was important. Stating someone was already certified might have given the participant the impression that certification did not matter as much since it already was, and therefore paid less attention to question 2.

Next a frequency distribution was calculated for each question and the amount of times a survey type responded with a specific response. It is easier to look at the table in order to draw conclusions.

Count of Donation Level	**Donation Level**				
	1	**2**	**3**	**4**	**Total**
A	22%	51%	24%	3%	100%
B	23%	54%	23%	0%	100%
C	36%	41%	23%	0%	100%
D	32%	46%	19%	3%	100%
Grand Total	28%	48%	22%	1%	100%

Count of Question 1 Survey Type	Question 1 1	2	3	4	5	Total
A	11%	0%	49%	27%	14%	100%
B	5%	21%	41%	13%	21%	100%
C	13%	13%	41%	28%	5%	100%
D	8%	22%	30%	35%	5%	100%
Grand Total	9%	14%	40%	26%	11%	100%

Count of Question 2 Survey Type	Question 2 1	2	3	4	5	Total
A	3%	8%	16%	49%	24%	100%
B	15%	10%	44%	21%	10%	100%
C	5%	3%	21%	46%	26%	100%
D	5%	22%	22%	41%	11%	100%
Grand Total	7%	11%	26%	39%	18%	100%

Question1: Importance of expense ratio
Question 2: Importance of certification and audit

The important conclusions to draw from this data are that in survey type D the response for question 1, number 4 generated the most responses meaning that the expense ratio did play a part in their donation level. Survey D also produced a similar response for question 2, in that 41% people said that certification mattered.

I was surprised that more people did not choose the expense ratio playing a role for survey types A and B. The majority said it did not matter. This may be because the program expense ratio was so high and the organization appeared well run so that it did not seem important to these participants. It is also possible that 1) a larger sample size; 2) a real organization (as Parsons used); 3) different structure/scale of donation decision may have yield more significant results.

The last question on the survey was an open response question which asked what other information would be helpful in determining if you would donate to this charity. This information was incredibly useful in understanding what information actually makes people want to donate. The overall consensus seemed to be that the cover letter was not personal enough, and people needed more information on what the charity was, how long it had been around, who the leaders were, and a personal story. Some specific responses were:

"Personal story of someone who was helped through this organization (received survey B)"

"More proof that they are making a difference and not taking all the $$$$ (received Survey D)"

"Knowing how children will be selected if demand increases capacity could be important (A)"

"Stronger emotional impact more picture, not moved by text and statistics," "Personal story from family, information how it specifically helps children with disabilities (Both received Survey C)"

It is very clear that the overall consensus from all survey types is that a personal story means more than financial information when deciding initially what organization to donate to. Perhaps if two organizations helping the same cause had alternative financial information and one organization was certified and the other was not, then certification may play a role in choosing to donate to one organization over another. But initially it is the personal tie and emotional impact the organization has on an individual that makes them want to donate.

From this research it was concluded that it might not be the financial information that plays a role in donation amounts for all individuals. Although some people seemed to draw the conclusions anticipated and respond to the survey questions and variables in the way that was expected, overall the results were inconclusive and pointed to conclusions that were not foreseeable when the survey was designed. This survey was similar to one conducted by Linda M. Parsons, which made two important contributions to the accounting literature: "First, it provides evidence that financial accounting information can directly impact an individual's giving decision. This field-based experiment demonstrates that summary financial information can directly affect contributions from individuals. … Second, the study provides some evidence to standard setters that accounting information and nonfinancial disclosures may impact donors' views of nonprofit organizations."[42] Both Parsons and the research associated with this study were able to provide evidence that donors require financial and nonfinancial information when deciding where and how much to donate to charities.[43]

Tinkleman researched the factors affecting donors and the expense ratio and his conclusions were relatively similar to the ones discussed in this study, however, price elasticity, the theory of quantity demanded and its subsequent

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[42] Parsons, Linda M. "The Impact of Financial Information and Voluntary Disclosures on Contributions to Not for Profit Organizations." p. 190

[43] Parsons, Linda M. "The Impact of Financial Information and Voluntary Disclosures on Contributions to Not for Profit Organizations." p. 190

change in price, was not of a concern seeing as each participant was given a fictitious amount of money to donate. He found that, "price elasticity depends on data relevance and reliability. Organizational characteristics that are strongly related to higher price sensitivity are age of the organization, dependence on direct contributions, and plausibility of data. A high dependence on indirect sources of donations does not appear to affect price elasticity."[44] The most important part of his findings are consistent with this study in that other factors affect people's willingness to donate. He concluded, as this study does as well, that people rely on many other factors besides the specific expense ratios when it comes to their personal finances.

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[44] Tinkleman, Daniel. p. 158

VIII. CONCLUSION

The research involved in this study explores the effect of accounting on NFP organizations. After understanding the basics such as the differences between for profit and NFP organizations, taking a deeper look at the tax and audit requirements, and examining the expense ratios, it is clear that a lot of financial and accounting information goes into NFPs. They are not as simple as people would expect and they require much time and effort to run efficiently and effectively. In the end, it would be beneficial for NFP organizations to present their financial information in a way that all contributors can access and understand in order to fully benefit from donations.

However, based on the research conducted for this study it is clear that the expense ratio and financial information are not the only thing people look at when deciding if they want to donate or not. Personal and emotional feelings play a significant role in the decision. In order for NFP organizations to maximize their contributions they must appeal to donors' emotions but without disregarding the importance of accurate financial information.

Exhibit A: Make-A-Wish Financial Statement
Combined Statement of Financial Position
Combined Statement of Activities
Combined Statement of Cash Flows
Combined Statement of Functional Expenses

Make-A-Wish Foundation

COMBINED STATEMENTS OF FINANCIAL POSITION

August 31,

	2008	2007
ASSETS		
Cash and cash equivalents	$ 42,621,420	$ 38,852,774
Restricted cash	2,157,923	1,465,132
Cash restricted for property and equipment	7,994,145	7,785,582
Contributions receivable	22,123,362	19,041,735
Investments	123,815,431	111,555,170
Prepaid expenses	1,145,466	1,288,262
Property and equipment, net	13,840,191	12,168,810
Interest in net assets of related foundation	3,469,363	3,472,897
Investments held for long-term purposes	8,033,742	11,976,071
Other assets	4,476,351	3,229,033
Total assets	$ 229,677,394	$ 210,835,466
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 12,106,143	$ 7,802,349
Accrued pending wish costs (Note 2)	37,953,493	27,478,375
Deposits	460,126	1,308,616
Notes payable	760,932	953,587
Other liabilities	203,078	489,734
Total liabilities	51,483,772	38,032,661
Commitments and Contingencies (Notes 7, 8, 12 and 14)		
Net assets:		
Unrestricted	131,117,846	134,740,506
Temporarily restricted	29,793,574	21,837,567
Permanently restricted	17,282,202	16,224,732
Total net assets	178,193,622	172,802,805
Total liabilities and net assets	$ 229,677,394	$ 210,835,466

Make-A-Wish Foundation

COMBINED STATEMENT OF ACTIVITIES

Year Ended August 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Contributions	$ 109,319,692	$ 24,243,414	$ 1,555,207	$ 135,118,313
Internal special events	45,438,892	1,548,824	-	46,987,716
Less cost of direct benefit to donor	(12,575,076)	(93,253)	-	(12,668,329)
	32,863,816	1,455,571	-	34,319,387
External special events	25,574,601	944,156	68,550	26,587,307
Grants	5,119,428	1,144,260	48,959	6,312,647
Total support	172,877,537	27,787,401	1,672,716	202,337,654
Investment income	5,762,364	309,299	144,842	6,216,505
Realized/unrealized losses on investments, net	(8,084,516)	(160,350)	(141,812)	(8,386,678)
Other income	2,039,102	744,419	(19,488)	2,764,033
Net assets released from restrictions	21,323,550	(20,724,762)	(598,788)	-
Total revenues and other support	193,918,037	7,956,007	1,057,470	202,931,514
Expenses:				
Program services:				
Wish granting	139,385,563	-	-	139,385,563
Chapter support	2,271,466	-	-	2,271,466
Program related support	1,495,574	-	-	1,495,574
Committee and board support	434,147	-	-	434,147
Training and development	1,707,324	-	-	1,707,324
Public information	4,046,122	-	-	4,046,122
Total program services	149,340,196	-	-	149,340,196
Support services:				
Fund raising	29,762,344	-	-	29,762,344
Management and general	18,438,157	-	-	18,438,157
Total support services	48,200,501	-	-	48,200,501
Total expenses	197,540,697	-	-	197,540,697
(Decrease) increase in net assets	(3,622,660)	7,956,007	1,057,470	5,390,817
Net assets, beginning of the year	134,740,506	21,837,567	16,224,732	172,802,805
Net assets, end of the year	$ 131,117,846	$ 29,793,574	$ 17,282,202	$ 178,193,622

Make-A-Wish Foundation

COMBINED STATEMENTS OF CASH FLOWS

Years Ended August 31,

	2008	2007
Cash flows from operating activities:		
Increase in net assets	$ 5,390,817	$ 26,710,500
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,682,504	1,526,531
Loss on sale of equipment	13,599	28,898
Bad debt expense	192,514	119,186
Contributed property and equipment	(592,361)	(861,316)
Contributed inventory	(39,068)	-
Change in value of split interest agreement	45,492	(65,346)
Change in value of interest in net assets of related foundation	(3,534)	(202,977)
Change in discount to present value of contributions receivable	114,590	282,342
Net realized and unrealized loss (gain) on investments	8,386,678	(7,680,949)
Contributed stock	(309,637)	(497,636)
Changes in assets and liabilities:		
Contributions receivable	(3,985,263)	1,311,131
Other assets	354,238	(250,708)
Accounts payable and accrued expenses	3,039,564	797,127
Accrued pending wish costs	10,475,118	1,450,685
Deferred rent	181,582	4,473
Deposits	(140,476)	225,050
Net cash provided by operating activities	24,806,357	22,896,991
Cash flows from investing activities:		
Purchases of investments	(62,226,300)	(68,748,645)
Proceeds from sales of investments	45,937,060	57,587,294
Change in restricted cash	(526,824)	(666,254)
Contributions restricted for purchasing property and equipment and investments	(2,730,514)	(5,720,724)
Purchases of property and equipment	(2,561,473)	(1,244,574)
Proceeds from sale of property and equipment	-	-
Net cash used in investing activities	(22,108,051)	(18,792,903)
Cash flows from financing activities:		
Proceeds from contributions restricted for investment and property and equipment	1,030,121	1,912,831
Proceeds from notes payable and other liabilities	95,516	209,380
Payments on notes payable and other liabilities	(55,297)	(1,085,537)
Net cash provided by financing activities	1,070,340	1,036,674
Net increase in cash and cash equivalents	3,768,646	5,140,762
Cash and cash equivalents at beginning of year	38,852,774	33,712,012
Cash and cash equivalents at end of year	$ 42,621,420	$ 38,852,774
Supplemental statement of cash flows information:		
Cash paid for interest	$ 29,063	$ 99,380
Donated property or equipment/stock	592,361	861,316
Acquisition of equipment with capital lease agreement	64,754	-

The accompanying notes are an integral part of these financial statements.

Make-A-Wish Foundation

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2008

	Program Services							Support Services			
	Wish Granting	Chapter Support	Program Related Support	Committee and Board Support	Training and Development	Public Information	Total Program Services	Fund Raising	Management and General	Total Support Services	Total
Direct costs of wishes	$ 104,718,832	$ -	$ -	$ -	$ -	$ -	$ 104,718,832	$ -	$ -	$ -	$ 104,718,832
Salaries, taxes and benefits	23,929,700	1,009,906	891,578	272,978	899,229	955,697	27,959,088	14,258,124	11,228,259	25,486,383	53,445,471
Printing	752,221	1,041	19,918	1,555	12,859	1,712,213	2,499,807	4,520,879	1,201,203	5,722,082	8,221,889
Professional fees	1,576,057	583,523	148,937	8,458	35,656	245,989	2,598,620	2,610,725	1,620,722	4,231,447	6,830,067
Rent and utilities	2,735,759	48,273	130,921	10,539	96,991	110,800	3,133,283	1,272,699	1,009,918	2,282,617	5,415,900
Postage/delivery	556,162	7,111	20,979	3,286	17,063	725,525	1,330,126	2,068,850	719,997	2,788,847	4,118,973
Travel	847,073	133,503	36,043	34,568	126,438	85,469	1,263,094	870,508	370,961	1,241,469	2,504,563
Meetings and conferences	294,644	213	14,612	18,291	341,565	9,829	679,154	433,817	162,100	595,917	1,275,071
Office supplies	782,877	13,039	30,390	2,331	17,679	27,331	873,647	506,121	349,238	855,359	1,729,006
Depreciation and amortization	733,639	58,403	12,835	12,979	53,519	43,471	914,846	363,333	404,325	767,658	1,682,504
Telephone	591,657	13,840	15,566	2,869	16,946	23,715	664,593	289,906	228,056	517,962	1,182,555
Direct costs of fund raising	-	-	-	-	-	-	-	731,511	-	731,511	731,511
Public relations	338,507	-	27,633	-	1,963	70,865	438,968	412,815	40,380	453,195	892,163
Repairs and maintenance	368,044	9,237	8,878	2,394	11,657	9,484	409,694	185,624	184,172	369,796	779,490
Insurance	94,088	249,902	2,753	63,551	15,819	4,707	430,820	74,722	66,567	141,289	572,109
Bad debt expense	43,090	-	-	-	-	-	43,090	140,972	8,452	149,424	192,514
Dues and subscriptions	49,643	136,473	-	-	2,636	3,925	192,677	34,455	91,783	126,238	318,915
Grants and scholarships	-	-	-	-	-	-	-	4,657	16,527	21,184	21,184
Volunteer training	116,368	-	-	-	30,423	-	146,791	352	797	1,149	147,940
Miscellaneous	857,202	7,002	134,531	348	26,881	17,102	1,043,066	982,274	734,700	1,716,974	2,760,040
	$ 139,385,563	$ 2,271,466	$ 1,495,574	$ 434,147	$ 1,707,324	$ 4,046,122	$ 149,340,196	$ 29,762,344	$ 18,438,157	$ 48,200,501	$ 197,540,697

The accompanying notes are an integral part of this financial statement.

Exhibit B: A Section of Form 990

Form **990** — Department of the Treasury, Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

The organization may have to use a copy of this return to satisfy state reporting requirements.

OMB No. 1545-0047 — 2009 — **Open to Public Inspection**

A For the 2009 calendar year, or tax year beginning , 2009, and ending , 20

B Check if applicable: ☐ Address change ☐ Name change ☐ Initial return ☐ Terminated ☐ Amended return ☐ Application pending

Please use IRS label or print or type. See Specific Instructions.

C Name of organization

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 country, and ZIP + 4

D Employer identification number

E Telephone number ( )

G Gross receipts $

F Name and address of principal officer:

H(a) Is this a group return for affiliates? ☐ Yes ☐ No

H(b) Are all affiliates included? ☐ Yes ☐ No
If "No," attach a list. (see instructions)

H(c) Group exemption number

I Tax-exempt status: ☐ 501(c) ( ) (insert no.) ☐ 4947(a)(1) or ☐ 527

J **Website:**

K Form of organization: ☐ Corporation ☐ Trust ☐ Association ☐ 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 ☐ 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 employees (Part V, line 2a)	5	
6	Total number of volunteers (estimate if necessary)	6	
7a	Total gross unrelated business revenue from Part VIII, column (C), line 12	7a	
b	Net unrelated business taxable income from Form 990-T, line 34	7b	

			Prior Year	Current Year
Revenue	8	Contributions and grants (Part VIII, line 1h)		
	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–24f)		
	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		
			Beginning of Current Year	**End of Year**
Net Assets or Fund Balances	20	Total assets (Part X, line 16)		
	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's Use Only

Preparer's signature — Date — Check if self-employed ☐ — Preparer's identifying number (see instructions)

Firm's name (or yours if self-employed), address, and ZIP + 4 — EIN — Phone no. ( )

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

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11282Y Form **990** (2009)

Exhibit C: Molly Smalls Fundraising Letter

Molly Smalls
121 Lexington Ave
Mansfield, NY 10248

Dear Molly,

Over 16% of children enrolled in public elementary and secondary schools in New England are served under the Individuals with Disabilities Education Act, an 18% increase since 1990. More specifically, over the past decade, experts have discovered an alarming 600% increase in the number of autism cases in school-age children.

Many of your neighbors, peers, or family may have a child that has been affected by a disability such as autism, mental retardation, or natural born orthopedic impairment. Children and their families need support to help each child strive for a normal lifestyle including the support of friends, family, and activities. Little Adventures, a not for profit organization, has the ability to provide this for all special needs children and their families.

Little Adventures is devoted to providing day long "adventures" to children with autism, mental retardation, and natural born orthopedic impairments, and their families. The day trips include canoeing, snowshoeing, dog sled racing, pirate ship cruise, zip lining, and horseback riding. These adventures are something that children with these disabilities may never have the opportunity to experience and the fun loving community setting will expand over time providing a way for families and their children to interact and develop friendships and support that can last a lifetime.

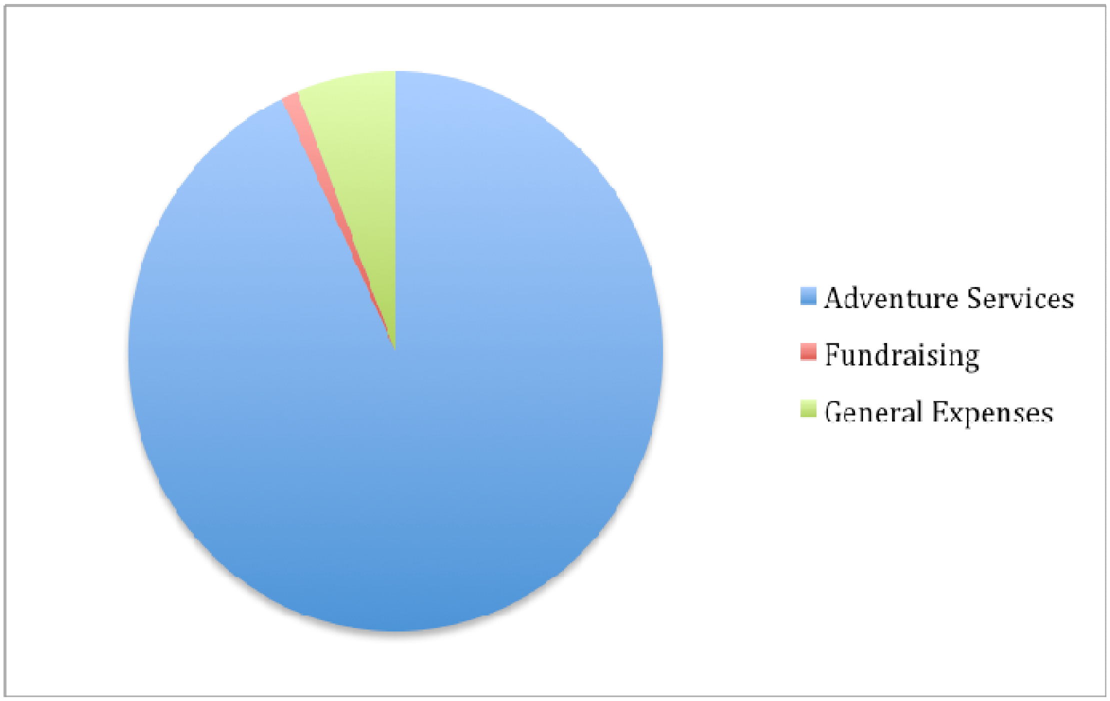
With such a large, growing population of potential consumers in New England, Little Adventures expects demand to far exceed available spots, allowing for expansion into other regions of the United States, and an increase in the amount of adventures in each region. **We need your help!** A gift from you will go a long way in helping enrich these children's lives and provide memories for them and their families that will last a lifetime.
We are counting on your support.

Sincerely,

Marley Closerfield
Director of Little Adventures

Exhibit D: Survey A

Expense ratio pie chart of Little Adventures' funds in fiscal year 2009



- $.93 of each dollar goes directly to an Adventure day activity and helping the lives of Adventure Children.
- $.02 of each dollar goes towards fundraising
- $.05 of each dollar goes towards general expenses

- Little Adventures is certified by the National Center for Charitable Giving (in order to be certified Little Adventures must be audited)

If you had $1000, assuming you will donate all of this money to charitable organization, how much are you willing to donate to Little Adventures versus other charities of your choice:

0-25% 25-50% 50-75% 75-100%

Do not return back to a previous page:

Based on your selected donation please answer the following questions using a 1-5 scale of likeliness.

1= strongly disagree 3= moderately agree 5=strongly agree

1. The expense ratio is an important factor in selecting my donation

   1 2 3 4 5

2. The fact that Little Adventures has been certified by the National Center for Charitable Giving makes Little Adventures more credible

   1 2 3 4 5

3. Is there any additional information about Little Adventures that would make you more likely to donate to Little Adventures?

Please check one:

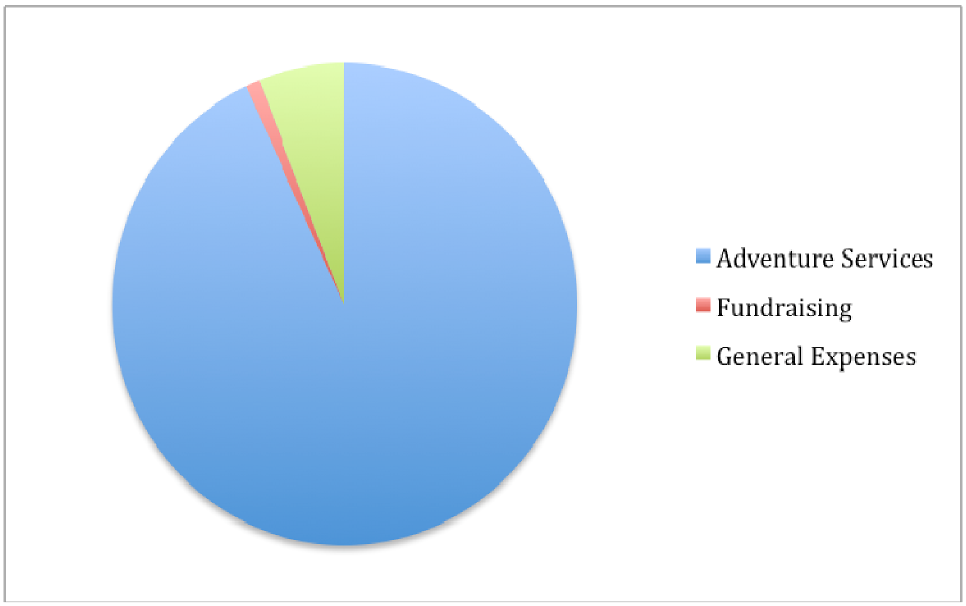
____Female ________Male

_____Whitman ________Newhouse

**Please note Little Adventures is a fictitious organization

Exhibit E: Survey B

Expense ratio pie chart of Little Adventures' funds in fiscal year 2009



- $.93 of each dollar goes directly to an Adventure day activity and helping the lives of Adventure Children.
- $.02 of each dollar goes towards fundraising
- $.05 of each dollar goes towards general expenses

- Little Adventures is not certified by the National Center for Charitable Giving (in order to be certified Little Adventures must be audited)

If you had $1000, assuming you will donate all of this money to charitable organization, how much are you willing to donate to Little Adventures versus other charities of your choice:

0-25% 25-50% 50-75% 75-100

Do not return back to a previous page:
Based on your selected donation please answer the following questions using a 1-5 scale of likeliness.

1= strongly disagree 3= moderately agree 5=strongly agree

4. The expense ratio is an important factor in selecting my donation

1 2 3 4 5

5. The fact that Little Adventures has NOT been certified by the National Center for Charitable Giving makes Little Adventures less credible

1 2 3 4 5

6. Is there any additional information about Little Adventures that would make you more likely to donate to Little Adventures?

Please check one:

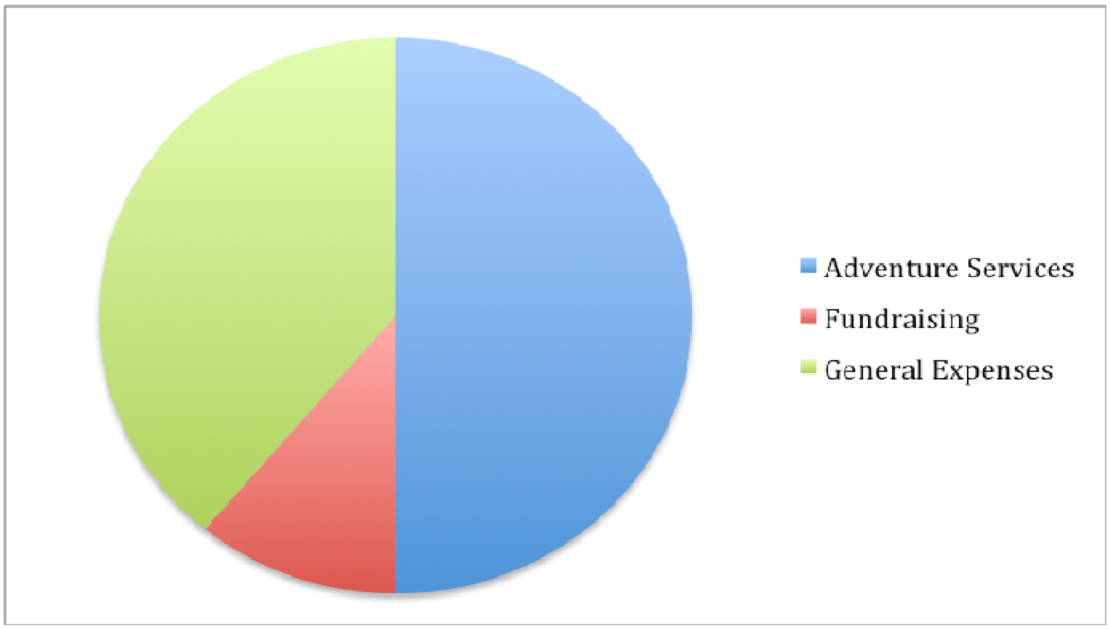
____Female ________Male

_____Whitman ________Newhouse

**Please note Little Adventures is a fictitious organization

Exhibit F: Survey C

Expense ratio pie chart of Little Adventures' funds in fiscal year 2009



- $.45 of each dollar goes directly to an Adventure day activity and helping the lives of Adventure Children.
- $.15 of each dollar goes towards fundraising
- $.40 of each dollar goes towards general expenses

- Little Adventures is certified by the National Center for Charitable Giving (in order to be certified Little Adventures must be audited)

If you had $1000, assuming you will donate all of this money to charitable organization, how much are you willing to donate to Little Adventures versus other charities of your choice:

0-25% 25-50% 50-75% 75-100%

Do not return back to a previous page:
Based on your selected donation please answer the following questions using a 1-5 scale of likeliness.

1= strongly disagree 3= moderately agree 5=strongly agree

7. The expense ratio is an important factor in selecting my donation

1 2 3 4 5

8. The fact that Little Adventures has been certified by the National Center for Charitable Giving makes Little Adventures more credible

1 2 3 4 5

9. Is there any additional information about Little Adventures that would make you more likely to donate to Little Adventures?

Please check one:

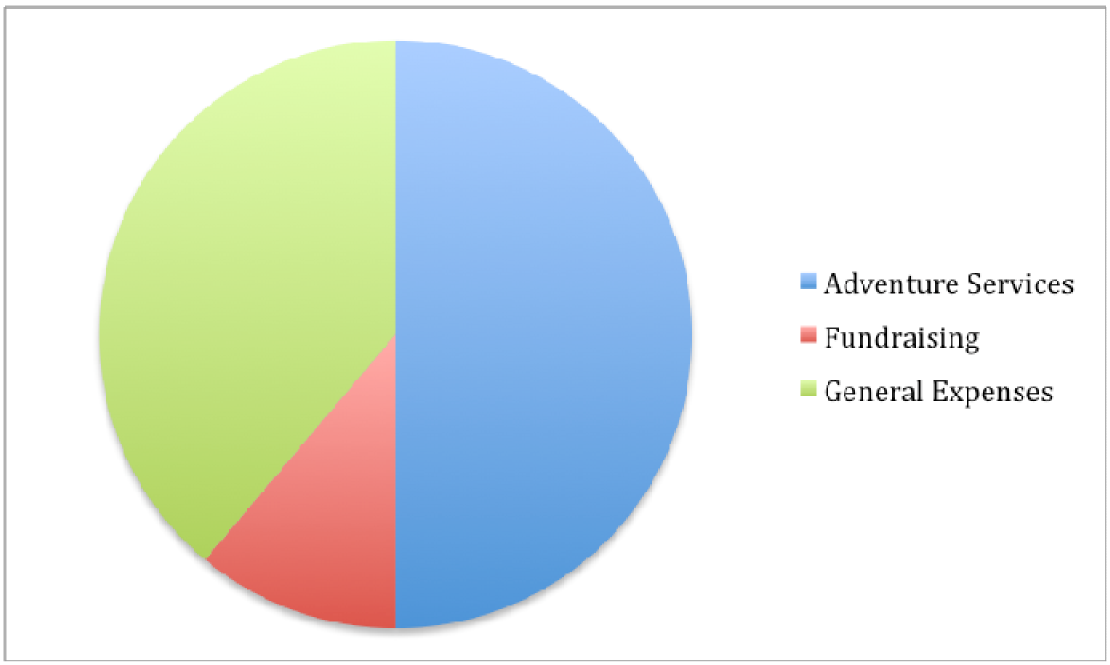
____Female ________Male

_____Whitman ________Newhouse

**Please note Little Adventures is a fictitious organization

Exhibit G: Survey D

Expense ratio pie chart of Little Adventures' funds in fiscal year 2009



- $.45 of each dollar goes directly to an Adventure day activity and helping the lives of Adventure Children.
- $.15 of each dollar goes towards fundraising
- $.40 of each dollar goes towards general expenses

- Little Adventures is not certified by the National Center for Charitable Giving (in order to be certified Little Adventures must be audited)

If you had $1000, assuming you will donate all of this money to charitable organization, how much are you willing to donate to Little Adventures versus other charities of your choice:

0-25%　　25-50%　　50-75%　　75-100%

Do not return back to a previous page:
Based on your selected donation please answer the following questions using a 1-5 scale of likeliness.

1= strongly disagree　　3= moderately agree
5=strongly agree

10. The expense ratio is an important factor in selecting my donation

1　　2　　3　　4　　5

11. The fact that Little Adventures has NOT been certified by the National Center for Charitable Giving makes Little Adventures less credible

1　　2　　3　　4　　5

12. Is there any additional information about Little Adventures that would make you more likely to donate to Little Adventures?

Please check one:

____Female　　________Male

_____Whitman　　________Newhouse

**Please note Little Adventures is a fictitious organization

Exhibit H: Data from survey presented in Excel Format

Count of Survey Type	
Survey Type	**Total**
A	37
B	39
C	39
D	37
Grand Total	152

Count of Gender	
Gender	**Total**
F	85
M	60
(blank)	7
Grand Total	145

Survey Type	Data	Total
A	Average of Donation Level	2.1
	Average of Question 1	3.3
	Average of Question 2	3.8
B	Average of Donation Level	2.0
	Average of Question 1	3.2
	Average of Question 2	3.0
C	Average of Donation Level	1.9
	Average of Question 1	3.0

	Average of Question 2	3.8
D	Average of Donation Level	1.9
	Average of Question 1	3.1
	Average of Question 2	3.3
Total Average of Donation Level		2.0
Total Average of Question 1		3.2
Total Average of Question 2		3.5

Count of Donation Level	**Donation Level**				
	1	**2**	**3**	**4**	**Total**
A	22%	51%	24%	3%	100%
B	23%	54%	23%	0%	100%
C	36%	41%	23%	0%	100%
D	32%	46%	19%	3%	100%
Grand Total	28%	48%	22%	1%	100%

Count of Question 1	**Question 1**					**Total**
Survey Type	**1**	**2**	**3**	**4**	**5**	
A	11%	0%	49%	27%	14%	100%
B	5%	21%	41%	13%	21%	100%
C	13%	13%	41%	28%	5%	100%
D	8%	22%	30%	35%	5%	100%
Grand Total	9%	14%	40%	26%	11%	100%

Count of Question 2	**Question 2**					
Survey Type	**1**	**2**	**3**	**4**	**5**	**Total**
A	3%	8%	16%	49%	24%	100%
B	15%	10%	44%	21%	10%	100%
C	5%	3%	21%	46%	26%	100%
D	5%	22%	22%	41%	11%	100%
Grand Total	7%	11%	26%	39%	18%	100%

Exhibit I: Raw Data

Survey #	Survey Type	Donation Level	Q1	Q2	Question 3	Gender	School
1	A	2	3	5	What events were held in the last year	F	W
2	B	2	1	2	If there was anything associated locally	F	W
3	A	2	4	4		M	W
4	B	3	2	4	Public Figure sponsors	F	W/N
5	B	3	3	3		F	W
6	C	3	5	4	where statistics were from	F	W
7	A	2	1	4		M	W
8	C	1	3	3		F	W
9	B	3	5	4	How much it costs to sponsor a child for a year on average (human dimension	M	W
10	C	3	4	5	Less money towards general expenses	M	W
11	D	2	4	4		F	W
12	C	2	3	4		F	
13	D	1	1	1		F	N
14	D	2	3	2		F	
15	D	1	4	2	Stories of how it helped the family	F	
16	B	2	2	1		F	
17	A	2	4	4		F	N
18	C	1	3	5		F	
19	B	2	3	2	Proof of how many children attend	F	

20	C	1	1	3	Personal story from family, information how it specifically helps children with disabilities	F	W
21	C	2	3	5	Influence this program has on kids, does it improve motor skills or speech?	F	W
22	D	1	3	5	How much they need to raise in order for the organization to run properly	M	W
23	B	1	3	3	What are they doing post little adventures, how does their lives improve	M	
24	C	1	1	3		M	W
25	C	3	3	3		M	W
26	D	3	2	4		M	W
27	A	2	5	4	How it has done so far	M	W
28	B	2	2	3		F	W/N
29	D	2	4	5	To help children	M	W
30	A	1	4	4	More about the financials and how they plan to grow the organization	M	W
31	A	2	3	4	If they gave information on the people in charge so you can ask them questions	M	W
32	C	1	3	5	If the organization also had a research component	M	W
33	C	3	2	4	The cause	F	
34	A	2	4	5		F	
35	B	2	5	3		F	
36	B	2	3	1		F	N
37	A	3	1	3	I would 100% donate	F	
38	D	2	2	4	Watching a video	F	W
39	A		4	5		M	W
40	B	3	3	3		F	W
41	D	2	4	4		F	W

42	C	2	4	4		F	W
43	C	1	1	5		F	W
44	D	3	3	2	How they have succeed so far	F	W
45	D	3	3	4	If you would get feedback on what adventures or children your money went to help	F	W
46	A	3	3	4		F	W
47	C	1	1	2	Stronger emotional impact more picture, not moved by text and statistics	M	W/N
48	A	3	3	5		M	W/N
49	B	2	3	3		M	W
50	A	2	3	4			
51	C	1	1	5	Well known spokesperson	M	W
52	D	3	4	4	The emotional attachment from the cover letter	F	W
53	A	2	3	3		M	W
54	C	2	4	5	Pamphlet, video, website	F	
55	A	2	3	2		F	
56	B	2	3	4	The number of kids who participate yearly	F	W
57	C	2	3	4	It provides fun for children with disabilities and a choose for them to meet other kids with experiences like theirs	F	
58	C	2	3	3		F	W
59	D	4	3	3		F	
60	D	3	1	1			W
61	A	4	5	4	Knowing how children will be selected if demand increases capacity could be important	F	W

62	C	3	4	5	Opportunity for parents or siblings to share time with kids on adventures	M	W
63	C	3	3	5			W/N
64	B	1	2	5	A testimony from people who have already gone and enjoyed the experience	F	W
65	B	2	3	3		F	N
66	C	2	3	4	The feedback	F	W
67	D	1	3	3		F	W
68	B	1	4	5	Personal story about how the organization has helped an individual, letter is impersonal	M	W
69	C	2	3	5	No, very informative	F	
70	B	2	2	3		F	
71	A	1	3	4		F	N
72	D	2	2	2		F	
73	A	2	3	4		F	
74	D	2	2	2	No	F	
75	A	1	5	4		F	W
76	B	2	3	5		M	W
77	B	2	4	3	To see money in action and what affect it has	M	W
78	D	1	1	4	Not something of my interest	F	W
79	D	2	2	4		F	W
80	A	3	4	5	A more personal letter, possible story for reader to connect to	M	W
81	D	2	5	3		F	W
82	A	1	3	4		M	
83	B	2	3	3		M	W
84	B	3	5	2	How many kids are helped per a year, interview with kids and families, how much each adventure costs	M	W
85	A	2	3	4		M	W
86	C	3	3	1		M	W
87	B	3	3	3		M	W

88	D	2	4	2		F	W
89	D	2	2	4		F	W
90	A	3	3	3		F	W/N
91	C	3	4	3		F	W
92	B	3	5	3	Testimonials of parents	F	W
93	B	3	5	3		F	W
94	C	1	2	1		M	W
95	B	1	3	4		M	W
96	A	1	1	1	Supporting citations and references to the 600% increase and 18% increase	M	W
97	D	2	4	4		M	W
98	C	1	2	4	None	M	W
99	B	3	2	1	Itineraries, trials, outcomes	F	W
100	D	1	5	5	Break down of spending, so little money is going to the kids and since there is no audit I feel like I cannot trust them and wont donate	M	W
101	A	2	4	3		F	W
102	C	3	4	4		M	W
103	C	1	4	4		M	W
104	D	1	3	3		M	W
105	A	1	3	4	Is it only to provide day trips or are there other things provided	M	W
106	B	2	4	4	What type of person will be used to supervise the children	M	W
107	C	2	2	4	Most likely not	F	W
108	C	2	3	4	Just more about the children, maybe a personal story	M	W
109	C	2	4	4		F	W
110	A	1	3	5			W
111	C	1	5	3	Stats about charity in helping autistic children, how has their life changed because of the organizations	F	W

112	D	1	3	4	More proof that they are making a different and not taking all the $$$$	M	W
113	A	3	5	3	Seeing results	F	W
114	B	1	1	1	No, I just don't care about things that don't affect me	F	W
115	D	2	3	4	More specifics about how it will perform activities with these children and how it will help them	M	W
116	B	2	2	3	The previous years donation amount and the results	F	W
117	D	2	4	4		F	W
118	C		3	3		F	W
119	A	2	3	5			
120	A	3	4	3	No	M	W
121	B	1	4	3	Founder, connection to organization, brief history	M	W
122	C	1	3	4			W
123	D	1	3	5		F	W
124	A	2	3	4		F	W
125	D	2	2	3		M	W
126	C	2	2	4		M	W
127	B	2	2	3		M	W
128	A	3	1	5		F	W
129	B	1	4	4		M	W
130	B	2	3	1	Personal story of someone who was helped through this organization	F	W/N
131	A	2	4	2	Testimonies from family/children and pictures	F	A/S
132	D	3	4	3		F	W
133	D	2	4	4	Specifics on the adventure	F	W

134	C	2	3	4	My mom and sister are both teachers and work with students with similar issues	F	W/N
135	B	2	3	1	Personal stories	F	N
136	D	1	2	3	Increased credibility, examples, how long you've been around	M	Other
137	A		3	5		M	W
138	C	1	4	4	I would give a larger portion of my charitable fund to finding permanent solutions	M	W
139	B	1	5	5		M	W
140	A	2	3	4		F	W
141	D	2	4	4		F	W
142	A	2	4	2			W
143	A	1	5	5		M	W
144	D	1	4	2		M	
145	D	3	3	3		F	W
146	C	2	4	4		F	W
147	C	2	4	3		M	W
148	A	3	4	5		M	N
149	C	2	3	4		F	
150	B	2	5	4	Nothing	F	Other
151	D	1	4	2		F	N
152	A	2	3	4		M	W
153	B	1	3	3		M	W
154	B	2	5	2	How long they have been doing it, how many participants	F	W
155	B	2	3	4		M	W

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Summary of Capstone Project

The focus of this project is to discover and understand the main ideas of accounting for not for profit (NFP) organizations. The paper will start with a broad overview of NFP organizations. This paper will focus on secondary research and literary review for the first portion of the paper and move onto primary research in the second half of the paper. NFPs are some of the most overlooked organizations today because people often think they do not make enough money to pay attention to. Another stereotype is that they are too small to have regulations or governance. This is definitely not the case. NFP organizations have some of the strictest laws and regulations with respect to organizations in the world today. This paper will explore these.

Discovering that the financial statements are one of the main differences between for profits and NFP organizations is very interesting. Although the financial statements convey the same points and information they are titled differently. NFP organizations use the titles Statement of Financial Position, Statement of Activities, Statement of Cash Flows, and Statement of Functional Expenses. These are stated under SFAS 117. The other main difference regarding financial statements is the use of contributions rather than revenue and the definition of net assets.

Two of the main challenges facing NFP organizations are their need to record In Kind Donations and Uncollectible Pledges. These two accounts are unique to NFPs because for profits do not receive in kind donations or uncollectible pledges. In Kind donations are difficult because they are items or services that the NFP receives but there is no transfer of assets for the item or service. Therefore, it is difficult to determine what needs to be recorded. Uncollectible pledges are difficult to record because they are pledges that the organization believes are committed pledges, but if the money is never received the NFP has overstated its revenues and assets.

Due to the unique financial information that NFPs have and must record, their tax and audit requirements are different than for profit organizations. The main tax filing for NFP organizations is Form 990. This informational return is due four and a half months after the NFP's year end date and is required to be submitted to the IRS and publically printed. Form 990 is often used to judge and determine if the NFP is a well-run organization based on the information provided with respect to revenue, expenses, management, government grants, and the NFP's mission statement that is required on the form. Guidestar is one of the online databases where the Form 990s are displayed for public view.

Similar to for profit organizations NFP entities are also required by the AICPA to abide by regulations set forth by GAAS and GAGAS. The two main auditing standards for NFPs are the OMB Circular A-122 and A-133 also known as the Single Audit Act. The main concerns of the requirements deal with cash and the recoding of certain items relating to NFPs. One of the large challenges for auditors when auditing a NFP is dealing with and evaluating the internal controls of NFPs. Internal control is a main concern for NFPs since fraud can occur easily due to the influx of cash through many different sources.

After understanding what NFPs use to evaluate and record their transactions and information about the entity, the next significant portion of this paper is on how people evaluate and determine a well run NFP. What information matters to donors, and makes them want to donate to the organization?

The paper examines in depth the expense ratio. This is a common ratio that NFP organizations are evaluated on. How much money goes towards program costs, general costs and fundraising? What is each dollar-donated going towards? Linda Parsons, a well-known professor and researcher, is relied upon for information in this section. She did a study previously on what makes people donate by giving them different types of financial information.

For this paper I chose to do a similar study using two different variables on a fictitious organization titled Little Adventures. The two manipulated variables are the expense ratio and certification by an overarching governing body. In order to receive certification, the NFP must be audited. There were four different survey types used and included a cover letter about the organization, a page with the financial information, and the last page included two statements and asking if the participant would agree or disagree and then an open ended question asking if any other information would make them want to donate at a higher level. I administered this survey to 155 students at Syracuse University.

As of now the results are surprising. I have not analyzed all the data yet however, from tabulating and coding the data there seems to be less of a relationship between NFP financial information and donation level. Most participants chose the same donation amount and said they were mostly indifferent to the statements.

From my research it is hoped that I will be able to analyze and discover results about what makes people actually want to donate and what gives the well-known and respected NFP organizations their great name. The first section is important because without understanding of the basic accounting for NFP organizations it cannot be determined what information is actually beneficial to donors.