Woman C.P.A.

Volume 7 | Issue 5 Article 4

8-1945

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Jessie Marie Smith

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By Jessie Marie Smith, *C.P.A., Chicago*

Because Jessie Smith is one of those reticent persons who dislike being photographed, we have no pictures of her for you. We can tell you, however, that she is an Illinois Certified Public Accountant and also has a B.S. degree from the University of Illinois. Her knowledge of social agency accounting is a practical one since she, at one time, was accountant for Chicago's well-known Hull House. In addition to being a member of the AWSCPA, she is a member of the American Institute of Accountants.

There are many types of non-profit institutions, such as trade associations, co-operatives of one kind or another, public projects, etc. It is with the non-profit institutions engaged in social service activities that we are now concerned.

Non-profit social service institutions may be divided into two general classes; first, those such as mental hospitals and state universities—maintained by government funds; second, those such as child welfare and group work agencies—supported for the most part by gifts from private individuals, or groups of individuals. It is the ways in which accounting for this latter group differs from that of a commercial concern which is the subject of this article.

One of the first things we note is that the difference between the assets and liabilities of a commercial enterprise is called the surplus or net worth; the difference between the assets and the liabilities of a non-profit institution may represent several separate funds for which a separate accounting must be made. Usually the non-profit institution will have at least three independent sets of assets and liabilities and their respective balancing accounts. These may be described as general or current fund, plant fund, and endowment fund.

The general or current fund is the operating fund of the agency.

By plant fund is meant the physical properties of the agency as opposed to properties held as an investment by the endowment fund.

The endowment fund represents the present principal of a sum allocated for the purpose of producing income for use in current operations either for general or specific purposes.

Another difference we find between commercial enterprises and a social service agency is in the income. The main source of current income, as well as additions to capital, of a non-profit social agency is contributions from individuals or groups of individuals. It is by virtue of these gifts that the members of the Board of Trustees of the agency find themselves collectively acting as trustees of these gifts to see that the terms or restrictions, if any, imposed by the donor are complied with in a resonable length of time. If the donor has reason to believe that his wishes with respect to his donation are not complied with, he has recourse to action in a court of equity.

(Very few, if any, members of the Board of Directors have the time to determine whether or not the terms of gifts are carried out. It is, therefore, advisable to have a well trained and experienced accountant in charge who is responsible to the Board and it would be the responsibility of the accountant to see that the Board is kept informed of all gifts and their respective restrictions, if any; also, that the Board be informed of the carrying out of the terms.)

Of course, when a gift is offered, the terms of which are not in agreement with the policies of the agency or are not feasible from the point of operations of the agency, it can be refused. Or, if the donor is living, it is possible to have the terms of the gift changed so that it is acceptable to the institution. In the case of a legacy, however, the problem of changing the terms is more difficult and it is necessary to secure a court order.

Gifts to these institutions fall into two classes: those for current or plant purposes and those for endowment purposes. If there is no restriction imposed upon the gift, it can be used as the Board of Trustees sees fit. If it is for the plant but for no particular project, it may be combined with similar funds. In reference to gifts to plant fund for a specific project, some agencies have found it advisable to secure at the same time funds for the maintenance of the new building. In the early days of private agency social work, new buildings were accepted without maintenance funds only with the coming years to become a very heavy drain on the current operating budget.

If among the assets of the plant fund there is a considerable amount of cash, this cash may be invested in readily convertible securities. The rate of return will be secondary to the liquidity of the security. Also, this income is retained in the plant fund and does not go in to help cover current operations.

Contributions for current operations fall into two classes: unrestricted and restricted. As stated before, it is the responsibility of the management to see that the restricted gifts are used in accordance with the donors' wishes.

In some agencies, if there is no current operating deficit and a large unrestricted legacy is received, it is their policy to transfer all or a portion of this legacy to other than current operations. It is also possible to combine the legacy with other unrestricted funds functioning as endowment funds. When these unrestricted funds functioning as endowment funds are used, a permanent record should be made of the purpose for which they were used.

Endowment funds are also divided into two classes—those unrestricted as to use of income and those whose income is restricted. It is the responsibility of the Board of Trustees to see to it that the endowment funds are kept intact and not dissipated, that they are invested in reputable securities or other holdings, and that the income from these investments is properly accounted for and correctly allocated.

The question is raised as to what value to give a donated security. The best policy is to set it up at market value at date of acquisition or at the best estimated value at the same date. In some instances legacies have been filled by executors by computing the value of the security at par when it is only worth 75c on the dollar. It would be unfair to other donors who gave the full dollar value for their endowments to set this up at par.

It is not necessary to segregate investments of funds of similar nature provided there is nothing in the original gift that requires separate accounting. In other words, there need only be three groups of securities—current or general operating securities, plant fund securities, and endowment fund securities. The income from these securities would then be distributed pro rata intra fund.

The main advantage in this method of "pooling" securities would be greater diversification of investments. Also, funds would be more easily invested if they didn't have to be allocated to individual funds, bookkeeping for the investments and income therefrom would be more simple, and securities could be sold without it being necessary to reallocate proceeds to a specific fund.

Usually the power to invest the monies of a non-profit institution is vested in a finance committee appointed from the members of the board of trustees as authorized in the constitution or by-laws. All transactions are approved by board action and so recorded in the minutes of the regular meeting of the board of trustees.

In case of the sale of securities of the endowment fund, profit or loss would affect the principal of the fund. In the case of "pooling" it is customary to apply the net loss on securities for a period against the unrestricted endowment fund if any. If there is no restricted endowment fund, some agencies attempt to cover this loss through current operations rather than to reduce the original endowment principal.

It is extremely important that adequate records be maintained of all gifts. Donors should be given pre-numbered receipts. A permanent record should be maintained of each gift. One institution uses a visible card record. The card is so coded that securing complete information is a matter of seconds. It gives the name and address of the donor, whether the individual is a general contributor to the special fund or has given an endowment; when the gift or gifts were made and with what regularity when the last appeal was made. The card is maintained in a current file until three years has elapsed from the date of the last donation; it is then placed in a delinquent file. If subsequently a gift is received it is reinserted in the current file. As names of new prospects are received they are checked against the current, delinquent and prospect files to be certain that there is no duplication of a name already on file. This saves time and supplies and prevents duplicate appeals being sent out. Most donors object to being asked twice for the same thing.

One of the other problems in the recording of gifts arises when pledges are secured. It is the policy of some institutions to record the pledges on their books only when cash covering same is received—others make it a practice to set up pledges when made and at the same time to set up a one-hundred percent reserve. When the cash is received, it is charged against the reserve and the difference between the amount of the pledges and the reserve represents the income from gifts received to date.

Another way in which accounting for non-profit institutions differs from that of a commercial firm is that no depreciation is set up on plant assets. The theory behind this is that the present generation has paid for the property through gift and should not have to pay for it a second time through depreciation. It would mean the next generation would have the use of the facilities free. Each generation should have to pay for its own plant. Also buildings used by non-profit institutions usually last a long time; they are well kept and are maintained through the current budget. (There is also the theory that in as much as the properties were a gift, they have no cost and, therefore, no depreciable value.)

In the case of buildings held by the endowment fund as investments, however, it is customary to set up depreciation and charge it against the rents received, if any.

In passing it may be noted that, unlike commercial concerns, social agencies are not subject to tax, nor is there a necessity for distribution of income at the end of a fiscal period. Most non-profit agencies are on a modified cash basis—that is income is recorded as received but expenses are accrued.

In Chicago and in a number of other localities, the deficits of a large number of non-profit institutions are financed through Community Funds or Chests. The procedure followed is this:

1. Institutional department heads, after consultation with their staff, prepare an itemized estimate of their expenditures for the coming year.

2. The department heads present their budgets to the director or head accountant together with reasons for new or increased expenditures.

3. The chief accountant combines all the departmental budgets and the overall picture is discussed with the director.

4. The budget, as approved by the director, together with the approved budget for the current year, the expenditures to date, and the projected expenses for the balance of the year, is then presented to the Board of Directors.

5. After approval by the Board, copies of the budget are sent to the Community Fund or Chest, where it is reviewed by the budget analyst. After such analysis the budget together with comments prepared by the budget analyst is gone over in conference by representatives of the Board of Trustees of the agency, the director and assistant director of the Fund, and the budget analyst.

6. Now the budget is ready for a hearing before the Fund committee assigned to that particular type of social agency. The members of this committee usually include trained workers in the same or allied fields, lay members from the boards of directors of comparable agencies. Now the representatives of the agency are permitted to present their case on behalf of the budget and to answer whatever questions may arise. The report of this committee goes to the budget committee of the Fund where final determination of the amount to be allocated by the Fund to the

agency is made.

Monthly, the agency prepares and submits a statement of operations in accordance with instructions from the Fund. After the report is reviewed by the Fund, the monthly allocation is sent to the agency. This report has tended to standardize the accounts of agencies and has provided a measure of cost for services rendered. Annually millions of dollars are given to institutions in the Chicago area and it is only right that the individual, whose gifts are sought, should have some guide as to where his money will give the most and best service.

The installation of the budget system in agencies has made them as conscious of income as expense. They are learning that they should not obligate themselves to perform services for which they have no funds.

Operations of non-profit institutions, as well as commercial enterprises, must be based on sound business and accounting principles. The investment of funds should be carefully supervised and recorded, receipts and disbursements of funds should be properly authorized and accounted for in detail. The budget should be adequate. The reports submitted to the Board of Directors should present clearly the true financial position of the agency and the results of its operations for the period.

Above all it should be borne in mind that the Board of Trustees, collectively, stands in the same position to the agency's contributors as any Trustee. This Board is completely responsible and must account for all funds in its custody.

TAX NEWS

On June 21, 1945, the Commissioner of Internal Revenue announced a plan whereby the Treasury Department and taxpayers may reach an agreement on the rates and methods of computing depreciation, such agreement to remain in effect for a period of five years unless a change is requested by the taxpayer. This announcement does not set up any new methods of computing depreciation or declare any new policy as to allowable rates. As in the past, the rates and method of computation of depreciation will be set for each taxpayer on the basis of facts applicable. The five-year agreement plan will merely act as a stabilizer of depreciation rates once set.

In order to obtain such an agreement, the taxpayer must request it from the Internal Revenue Agent in Charge for the district in which the taxpayer is located. After examination by a Revenue Agent, a tentative agreement will be drawn up and a report thereon forwarded to Washington for review. Upon approval of the tentative agreement and report, a final agreement is drawn up and signed by the taxpayer and by the Internal Revenue Agent in Charge. It provides assurance by the Bureau of Internal Revenue that the rates and method will not be disturbed for a period of five years except upon the taxpayer's request.

While no formal method of making application for such an agreement has been set up, the request should include sufficient information to indicate the nature of the agreement desired. We would suggest that in addition to the name and address of the taxpayer, the following data should also be given:

Fiscal year of the taxpayer.

Cost or other basis of assets now in use.

Depreciation method and rates to be used.

Correct depreciation reserve, per income tax return, at the beginning of present fiscal period.

Classification and grouping of assets and reserves in accordance with the proposed depreciation method and rate.

No general rule can be given as to the advisability of filing these applications since that depends entirely upon the facts in each case. The plan has, however, brought the question of depreciation deductions to the attention of businessmen and accountants.