ACCOUNTING PRACTICES OVERVIEW

Setting Fiscal Year

When an affiliate is set up, the fiscal year will need to be determined by the affiliate. National's fiscal year runs from January 1 to December 31. It is recommended that affiliates choose the same fiscal year.

Accounting Practices

The Financial Accounting Standards Board (FASB) has established several accounting practices for nonprofits to follow, including:

Functional Expenses A nonprofit's expenses must be allocated across several operational areas – management (general and administrative), fundraising, and program. These are called "functional expenses."

Revenue from Contributions FASB standards establish how and when to recognize revenue has been earned. They include standards for the accounting treatment of unrestricted and restricted funds, donated goods, in-kind contributions, pledges, and the like.

Donated Services This establishes standards for when it is necessary to record donated services (e.g., a sponsor's creation of a video or printing a brochure) in an affiliate's financial statements and how to value such a service. According to the FASB, services to be recognized include those that "(a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation."

Restricted Contributions Sometimes, an affiliate will receive a restricted contribution (e.g., a donation explicitly for a scholarship) or a grant from a foundation for a particular project (e.g., a conference or operation of a summer workshop or camp). While the amounts of restricted contributions are reported on a nonprofit's 990 tax return, donors will typically require much greater detail about the use of restricted funds. This serves to inform the donor that the conditions of the gift have been (or are being) met. All expenses related to a restricted project must be attributed to that project, thereby enabling staff to track what funds remain available for the restricted purpose.

Accrual Method of Accounting

ACE National uses an accrual basis of accounting. Affiliates should also follow this practice. According to accrual accounting, revenues are reported on the income statement when they are earned (for example, when a donation is pledged), not when the cash actually is received. Expenses are matched with the related revenues and/or are reported when the expense occurs, not when the cash is paid.

Accrual accounting has several advantages over the cash basis of accounting. At any given time, it reflects a more accurate picture of an organization's financial status. It eliminates the budget distortion of large advance payments, such as annual insurance premiums, etc. The accrual accounting method gives a more accurate picture when actual expenses are compared with budgeted amounts. Finally, it eliminates the possibility of overlooking incurred but unpaid expenses when making budget projections.

Throughout the fiscal year, expenses are accrued into the month in which they are incurred. Revenue is always recorded in the month in which it was earned or pledged. A multiyear pledge is recorded in its entirety in the current year and then set up as a long-term receivable.

Affiliates should close their books each month no later than the 15^{th} of the following month. At the close of the fiscal year, this rule is not enforced. All expenses that should be accrued into the prior fiscal year are so accrued to ensure that year-end financial statements reflect all expenses incurred during the fiscal year. Year-end books should be closed no later than 90 days after the end of the fiscal year.