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Washington Secretary of State Educational and Regulatory Activity Update For Not-for-Profits

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In order to help not-for-profits understand Washington State filing requirements, the Office of the Secretary of State (OSOS) has been focusing on providing educational programs via symposiums, publications and updates to the web site. There also have been revisions to the filing requirements in order to make them more understandable and less onerous. The summarized information below provides information on the educational and regulatory activity that is in effect, or has occurred in the last several months.

Revised Tiered Reporting Requirements for Charities

Washington State's Charities Program has revised tiered reporting requirements for charities effective July 22, 2011. If you are filing your organization's initial registration, it must meet the financial reporting requirements outlined in RCW 19.09.075 or WAC 434-120-105.

For established organizations, the chart below indicates revised reporting requirements based on the annual gross revenue averaged over the three preceding, completed accounting years.

	If your charity's annual gross revenues* are:	You must:
Tier 1	<\$1 million	No changes – follow filing requirements of RCW 19.09.075 or WAC 434-120-105.
Tier 2	>\$1 million but less than \$3 million	Make one of the following financial reporting requirements available to the public upon request, or accessible to the public on the internet: either the federal financial reporting form the organization normally files with the IRS, which must be prepared by a CPA or other professional who normally prepares such forms in the ordinary course of their business; OR audited financial statements prepared by an independent CPA for the preceding accounting year.
Tier 3	\$3 million or more	Obtain an independent, third-party audit of your financial statements for the preceding accounting year. Make this audit report available to the public upon request, or accessible to the public via the internet.

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*For purposes of meeting the financial requirements noted in the law, annual gross revenue means, for any accounting period, the total value of revenue, excluding unrealized capital gains, but including noncash contributions of tangible, personal property received by or on behalf of a charitable organization from all sources, without subtracting any costs or expenses.

As noted on the OSOS web site: "For organizations with more than three million dollars in annual gross revenue averaged over the last three fiscal years, *but* directly or indirectly receive five hundred thousand dollars or less in cash averaged over the last three fiscal years, the audit requirement is waived. Organizations with five hundred thousand dollars or less in cash averaged over the last three fiscal years must meet the financial reporting requirements described in Tier 2 in the above chart."

If an organization has been in existence for less than three years, the organization must calculate its average gross revenue based on the number of years the organization has been in existence to determine which "Tier" is applicable.

In addition, the OSOS may waive the requirement for audited financial statements when the organization can demonstrate that they have reached a three-year average of more than three million dollars in gross revenue through unusual or nonrecurring revenue received in a single year without which they would have not met the three year annual gross average threshold.

Education Opportunities

Board Members Handbook- The OSOS and the Office of the Attorney General have prepared the *Charity & Nonprofit Board Service in Washington State, a Quick Guide* for board members. It was developed to help board members understand their responsibilities as stewards of an organization. Under Washington law, board members of a Washington nonprofit organization are responsible for the management of the business and affairs of the organization. Some board members misinterpret this to mean that they are required to manage the day-to-day activities of an organization or to act in the role of an Executive Director. The reality is that they should appoint officers and assign responsibilities to them so that the officers can effectively carry out the duty of running the organization. The board members should provide governance for the organization's efforts in carrying out its mission. In carrying out board membership responsibilities, the law imposes on board members the fiduciary duties of care, loyalty and obedience to the law. Many of the guidelines in the publication are taken from the Washington State Nonprofit Corporation Act, located in the Revised Code of Washington (RCW), Chapter 24.03. Copies of the handbook can be obtained on the Secretary of State's website.

Symposiums –Charity and Nonprofit Educational Symposiums are being offered by the OSOS. These workshops are intended as educational opportunities for board members of charities and nonprofit organizations in Washington State.

Upcoming Symposiums:

1. Vancouver, 9/16/2011 at 8:30 a.m.;
2. Richland, 9/20/2011 at 8:30 a.m.; and
3. Cashmere, 9/22/2011 at 8:30 a.m.

To register, visit the OSOS website. Organizations may also schedule a presentation at their conference or meeting. You may contact Teresa Glidden, Charities and Nonprofit Education Coordinator, at 360-725-0373 for more information.

WSCPAs Offers Course to Board Treasurers

While an experienced board treasurer can be a tremendous asset to a not-for-profit organization, many board treasurers have substantial financial experience outside the not-for-profit environment – and yet little experience within it. Sometimes this loss is limited to the extra insight or perspective, but it can be more serious.

To help address this issue, the Washington Society of CPAs in conjunction with Jacobson Jarvis is offering a class specifically tailored to not-for-profit board treasurers, finance committee members and audit committee members. The class reviews the board's fiduciary responsibilities, illustrates differences between for-profit and not-for-profit financials, unveils best-practices for board treasurers, and discusses regulatory and reporting changes.

Held twice a year, the next class is currently scheduled for December 7, 2011. The course is open to both CPAs and non-CPAs. For more information, go to www.wscpa.org.

If you have any questions about the updates provided here, contact Carolyn Hojaboom by email at chojaboom@jjco.com or via phone at 206-628-8990. Visit our web site at www.ijco.com to obtain a free download of our booklet, *What Board Members Need to Know about Not-for-Profit Finance and Accounting*.

About the Author

Principal, Carolyn Hojaboom has served the Not-for-Profit sector for over 21 years. She has provided professional services as an audit partner in a regional accounting firm and has practical experience from serving as the Executive Director for a healthcare foundation and board positions for various organizations. She is recognized for her ability to identify areas to enhance or improve an organization's operations where her recommendations have been found to be intuitive, innovative and pragmatic.

As a leader in the Not-for-Profit Industry, she is committed to providing a high level of excellence in service and expertise to the industry. Carolyn recognizes the unique attributes found in this sector and continues to be well versed in its current issues. She received her Executive Master of Not-for-Profit Leadership from Seattle University. She participates on the Charity Advisory Council to Washington Secretary of State, the Accounting Advisory Committee of Seattle University and as Treasurer of Seattle Rotary Service Foundation. She has been a speaker and facilitator for board retreats, college classes and at professional seminars such as the AICPA and WSCPA.