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Profitable Solutions for Nonprofits

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Newsbits

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Make the most of your finance committee

When a nonprofit has a vital and engaged finance committee, it sends a strong signal to stakeholders — namely, that the organization is committed to responsible stewardship of its financial resources and long-term sustainability. The first step to setting up a committee is for your board of directors, staff and the committee members themselves to understand the committee's proper roles and responsibilities.

Beyond report review

The finance committee is charged with overseeing — and keeping the board of directors apprised of — your organization's overall financial health. Ideally, this entails more than simply scanning financial reports.

The most valuable finance committees take a strategic role when it comes to oversight and planning. Active involvement not only pays off with robust financial governance but also boosts the satisfaction level of committee members. And active involvement improves retention. Conversely, members asked to do nothing more than routinely review reports may come to dread meetings — and can grow to regret accepting the job.

Wide range of responsibilities

Although the exact parameters of the participation of committee members will vary based on factors such as staff size and organizational budget, the finance committee generally should be involved in the following tasks:

Budgeting and financial planning. Before the budgeting process begins, the committee should identify key assumptions and initiatives that will influence the process. Members and staff must discuss internal and external factors that could affect budgets over the next several years, including your organization's strategic plans. After approval, the committee also monitors budget adherence and flags worrisome variances.

Financial reporting. The committee oversees the preparation and distribution of financial statements and sets expectations for the nonprofit's staff about the level of detail, frequency, and deadlines of other financial reports. It monitors the adequacy of the organization's financial resources and their allocation toward the accomplishment of its mission. Simultaneously, the committee ensures that donor-imposed restrictions are being met. Additionally, the committee evaluates if the resources are sufficient to support expected program and operating expenses.

Internal controls. Internal controls are essential for protecting your organization's assets. The finance committee should work with staff to develop effective controls and policies and document them, for example, in a manual. The committee also must make sure that approved controls are followed, and filing deadlines met.

The treasurer leads the charge

A nonprofit's treasurer typically chairs the finance committee. The bylaw language describing a treasurer's duties is often similar across organizations, but the reality of the responsibilities can vary greatly, from supervision to a more hands-on role in accounting and banking.

The finance committee chair works with staff members to set meeting agendas and notify committee members of the topics to be discussed. He or she also generally serves as the primary liaison between the committee and the board of directors. The staff usually compiles the financial statements, but the treasurer presents the relevant reports to the board to facilitate informed decision-making.

Nonprofits frequently look among their board members for a professional number-cruncher, such as a CPA or financial advisor, to serve as treasurer. But a member with solid judgment and a strong commitment to the organization can work with your organization's outside financial professionals to develop the knowledge necessary to succeed in the position.

Administration of financial resources. The finance committee establishes and confirms compliance with fiscal and related policies and procedures. Approved policies should reflect your organization's specific circumstances, such as size and life-cycle stage, rather than just general "best practices." The committee should take care, though, not to overstep. It must respect the line between the development of overall policies and the development of specific staff processes and procedures.

Communication with the board. The committee works with staff to determine the best way to convey information the board needs for sound decision-making. Not everyone understands financial jargon. Numbers require explanation and context; the committee must connect them to the organization's mission, goals and strategies.

Audits. If your organization doesn't have a separate audit committee, the finance committee also is responsible for independent audits. The committee must engage and regularly interact with the auditors, review the audit report (and Form 990), present the audit report to the board and propose changes to implement any auditor recommendations.

Members asked to do nothing more than routinely review reports may come to dread meetings — and can grow to regret accepting the job.

Investments. Even if your organization doesn't have enough cash to support a separate investment portfolio, liquid funds need to be managed to maximize earned revenue. This means it falls to the finance committee to develop and execute an appropriate investment policy and retain qualified investment advisors, when needed. A separate investment committee is advisable, though, for organizations with substantial reserves, planned giving programs or endowments.

A caveat

While an active finance committee is crucial for your organization's health and reputation, it's important to remember that fiduciary responsibility isn't limited to the committee's members. The entire board has the duty to safeguard your nonprofit's financial welfare. ■

Holding an auction? Be sure to comply

So, you're having an auction. Rev up the team to solicit those baskets of goodies, spa visits and game tickets, but don't forget about complying with tax laws. There are several steps your nonprofit must take to fulfill your tax obligations and help your auction buyers fulfill theirs.

Putting it in writing

If you hold an auction to sell merchandise or services that have been donated to your charity, you should provide written acknowledgments to the donors of auctioned items valued at $250 or more. You won't incur a penalty for failing to acknowledge the donation, but the donor can't claim a deduction without such proof. Include in your acknowledgment:

- The name of your organization and a description — but not the value — of the donated item,
- A statement and good faith estimate of the value of any goods or services that your organization provided in return for the contribution, or
- A statement that no goods or services were provided by your organization in return for the contribution.

It's the donor's responsibility to substantiate the value of a donated auction item.

Certain rules for certain gifts

Donors of services (for example, legal, beauty or personal chef services) may be surprised to learn that their donations aren't tax-deductible as contributions — make sure you alert them to this in advance. The same goes for the donation of the use of a vacation home or use of other goods, equipment and facilities.

Donors of property, such as artwork or fine jewelry, can be told that tax law generally limits their deduction to their tax basis in the property (typically what they paid for it). They can't deduct the current fair market value (FMV) of the donated property if it's higher.

Here's another type of situation: If you receive an item for auction valued at more than $500 — and

within three years sell the property — you must file Form 8282, "Donee Information Return." You also must provide a copy of the form to the item's donor. Form 8282 must be filed within 125 days of the sale. If you fail to file the form, penalties could apply.

And motor vehicle donations call for yet another treatment. You must provide Form 1098-C to the donor reporting the actual amount received when you sell the vehicle, within 30 days of the sale. The donor's charitable deduction is limited to this amount.

Disclosing the FMV of the items

A contribution made by a donor who also receives substantial goods and services in exchange (such as the item won in the auction) is known as a *quid pro quo* contribution. Under the IRS rules, you must provide a written disclosure statement to a donor who makes a payment of more than $75 that's partly a contribution and partly for goods and services received. These disclosures are often required in the context of charitable auctions when the bids exceed $75.

So, it's a wise practice to provide bidders with a good faith estimate of the FMV of each available item in the auction catalog or provide the FMV in the descriptions posted at the time of bidding. Include language notifying bidders that only the amount paid that's more than the FMV is deductible as a charitable donation. This will satisfy the written disclosure requirements.

The failure to provide the written disclosures can result in penalties of $10 per contribution, not to exceed $5,000 per auction. You can avoid the penalty if you can show your failure was due to "reasonable cause."

Don't forget sales tax

Remember that your organization's exemption from *paying* sales tax when purchasing items isn't an exemption from *collecting* sales tax when selling items. Charitable auctions are basically sales, and most states require nonprofits to collect sales tax on the items sold.

If your organization doesn't normally engage in merchandise sales, you may need to register with your state to collect sales tax. Some states allow exemptions for "occasional sales," though. Research the state and local sales tax implications before you hold your event to ensure compliance. Your CPA can help.

Remember to comply

An auction can be an effective way to raise funds for your organization while sponsoring an engaging event. But don't lose sight of tax compliance. ■

The new accounting rules for nonprofit revenues

Accounting standards can be confusing. The Financial Accounting Standards Board's (FASB's) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, raised concerns about which nonprofit transactions were covered by the new rules. Its 2018 follow-up, ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, supplied some answers.

Any changes to accounting for revenues required by either of these pronouncements took effect for years beginning after December 15, 2018, for annual reporting. Some organizations still have questions about how the new standards apply to their revenues.

Recognize exchange transactions

The new revenue recognition rules cover only *exchange transactions* (also known as reciprocal transactions), not contributions (nonreciprocal transactions). An exchange transaction happens when each party receives and forfeits something of approximately equal value.

Nonprofits might generate several types of revenue considered exchange transactions, including:

- Membership dues,
- Sales of goods and services,
- Conference and seminar fees,

- Tuition,
- Subscriptions,
- Advertising,
- Licenses and royalties,
- Sponsorships, and
- Special events.

For multicomponent transactions — such as membership dues that comprise both a contribution and fees for membership benefits — you must separate out the contribution and recognize the other revenue under ASU 2014-09's rules.

Certain grants also could qualify as an exchange transaction. For example, a grant that reimburses expenses based on the number of meals the organization delivers to its clients might qualify as a contract to provide goods or services. A research and development grant could be deemed an exchange transaction if the grantor retains intellectual property rights in the work product.

ASU 2014-09 lays out five steps that organizations following U.S. Generally Accepted Accounting Principles (GAAP) must take to recognize revenue from exchange transactions. The standard doesn't change the total revenue you recognize from such transactions. However, it may change the timing and requires fuller disclosures.

Recognize contributions

We know ASU 2014-09 doesn't apply to contributions — but what constitutes a *contribution*? Nonprofits have struggled with this question regarding grants or similar contracts.

According to ASU 2018-08, to determine the proper treatment for such an arrangement, you must evaluate whether the grantor or other party to the contract receives commensurate value for the assets it transfers to your organization. If so, the arrangement is an *exchange transaction* and covered by ASU 2014-09. (Note that indirect benefit to the public doesn't count toward commensurate value received — the benefit must go to the grantor or other party.)

If the grantor doesn't receive equal value, determine whether the asset transfer is a payment from a third-party payer, for an existing exchange between you and an identified customer (for example, a Medicare payment) covered by other accounting guidance. If not, the transaction is likely a *contribution*.

The new contributions standard also requires you to determine whether a contribution is *conditional*. Generally, a conditional contribution includes:

1. A barrier the organization must overcome to receive the contribution — for example, a matching requirement or restrictions on allowable expenses, and
2. Either a right of return of the transferred assets or a right of release of the promisor's obligation to transfer assets.

Under ASU 2018-08, you'll recognize unconditional contributions when received or pledged. Conditional contributions aren't recognized until you overcome the barriers.

Complex web

The new revenue recognition and contributions rules are extensive and complicated. Your CPA can help you decipher them and follow the provisions that apply to your organization. ■

NEWSBITS

Study uncovers endowments', foundations' biggest 2019 fears

Endowments and foundations cite a slowdown in global economic growth as their biggest worry this year in the *Endowments & Foundations Survey* recently released by a U.S. investment consulting firm. Economic fears have tripled since the previous year's survey. About 60% of the respondents now name a slowdown as the most significant threat to their investment portfolios. Another 36% indicate that they believe the economy already has deteriorated.

The NEPC LLP poll also revealed that impact investing has gained momentum. Another finding: Cryptocurrency donations have fallen short of expectations, with no notable shift from regular cash donations. ■

IRA giving surges post-TCJA

The *2019 Report on Qualified Charitable Distributions from IRAs*, from FreeWill Co., finds that qualified charitable distributions (QCDs) from individual retirement accounts grew by an average of nearly 74% from 2017 to 2018. The average QCD gift among the nonprofit respondents was $9,200. And more than half of respondents said the average QCD gift size has grown over the past year.

The report attributes the boom to two factors: changes in the tax law and demographics. Taxpayers who no longer itemize due to the larger standard deduction can use QCDs, made with pretax dollars, to reap tax benefits from charitable contributions. And, while these gifts are an option only for taxpayers who're at least 70½ years of age, more Baby Boomers are becoming septuagenarians every day. ■

Identifying priorities of women's foundations and funds

New research from the Women's Philanthropy Institute at Indiana University sheds valuable light on the funding preferences of organizations that award grants to nonprofits benefiting women, girls, children and families. For example, it turns out that women's foundations and funds largely support organizations in their local communities.

Because women's and girls' causes generally don't represent their own nonprofit subsector, the funders' giving covers many areas. The most common is education (63%), followed closely by economic empowerment, security and self-sufficiency (61%) and health (54%). ■

State to boost nonprofit security

California Gov. Gavin Newsom has proposed an additional $15 million to help with security at what he calls "soft targets," such as houses of worship and certain other types of nonprofits. The announcement came in the wake of an attack on a San Diego–area synagogue this past spring.

The funding would go to organizations at higher risk due to their ideology, beliefs or mission (for example, mosques, LGBTQ organizations and those providing women's health services). Recipients could use the grants to pay for security improvements, including reinforced entrances, alarms and guards. The previous governor and state legislature had slashed the funding to $500,000 in 2018. ■

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Are Transportation Fringe Benefits Beneficial Anymore?

The taxation of qualified transportation fringe benefits has shifted recently under the Tax Cuts and Jobs Act (TCJA) which disallowed the deduction for these benefits and also required that they be added to unrelated business income (UBI). These changes mean more nonprofits will have a 990-T, *Exempt Organization Business Income Tax Return*, filing responsibility and may compel them to rethink their benefits packages.

What Changed

In 2019, qualified transportation fringe (QTF) benefits provide employees tax-free reimbursement for up to $265 of combined monthly expenses arising from (1) transportation in a commuter vehicle between the employee's residence and the office, and (2) public transport. It can also provide $265 worth of tax-free benefit every month for qualified parking expenses.

Old Rules

Under prior guidelines, nonprofits could fully deduct QTF benefits costs as business expenses, making them nontaxable to the organization. They could also be excluded from employees' wages.

New Rules

Now that the TCJA is in effect, the full amount of the benefits are considered an addition to unrelated business income and subject to tax unless they include the benefit amount in their employees' wages. Non-profits also have to determine the FMV of parking provided by the organization when they evaluate if they have a Form 990-T filing requirement, which is an additional administrative burden on the organization.

When the TCJA eliminated the QTF benefit deduction for for-profit entities, it did the same for nonprofit entities. Lawmakers argued that this move leveled the playing field, but unfortunately this change may affect nonprofits more acutely than their for-profit counterparts.

The Impact

Thanks to the TCJA, QTF benefits will increase a charity's unrelated business income, which is taxable at the applicable corporate or trust tax rate.

Not all nonprofits had unrelated business income to report in years past, but post-TCJA, many will have to start filing Form 990-T. They must also pay any taxes that may result, and when taxes are owed, quarterly estimated taxes may be required. Failure to pay your tax bill equitably each quarter could leave you with fines and penalties.

If your nonprofit provides transportation fringe benefits of any kind, get in contact with a member of the LaPorte Nonprofit Industry Group. We can help you understand how this new law change will impact your bottom line.