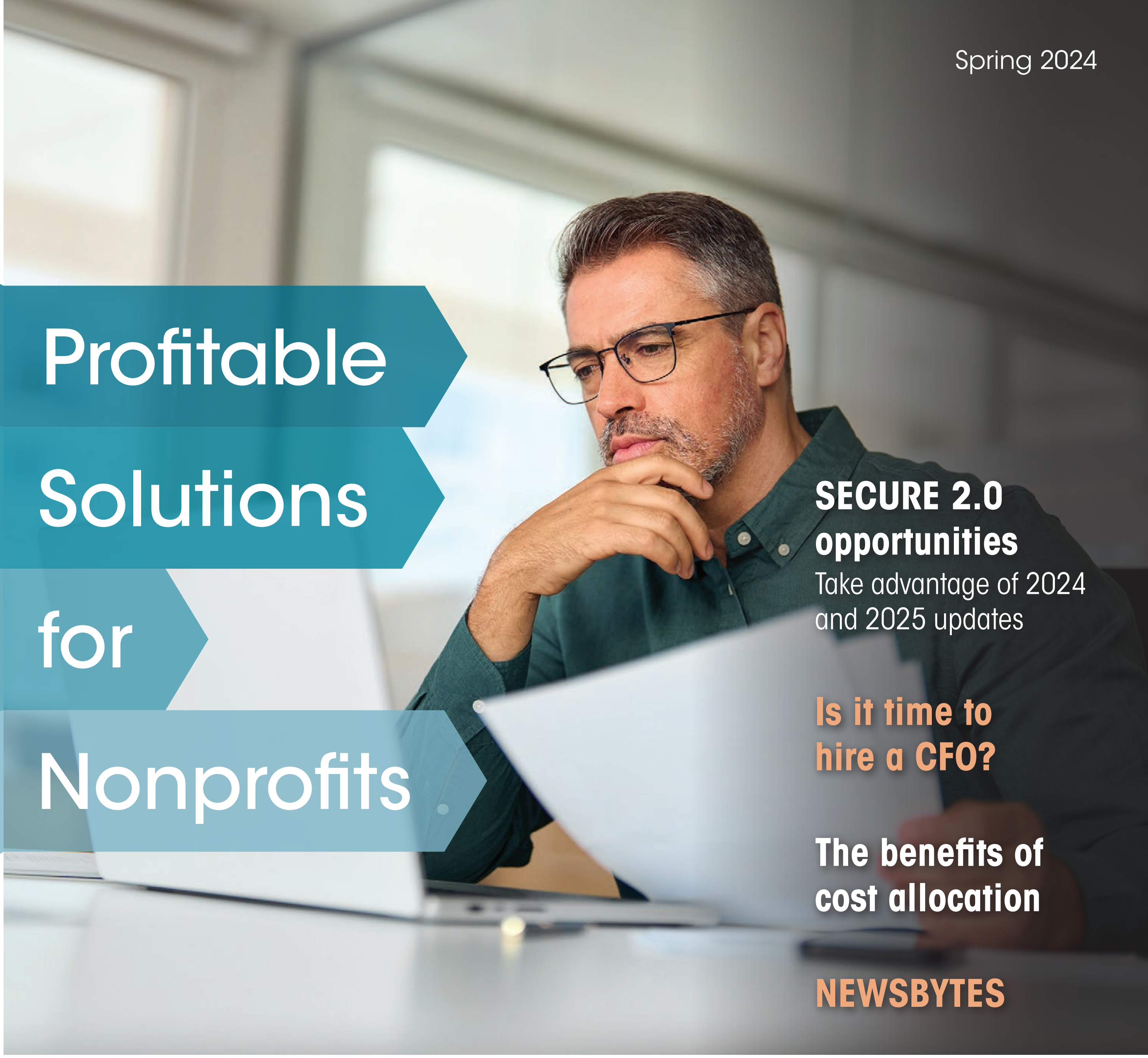
Spring 2024

Profitable Solutions for Nonprofits



SECURE 2.0 opportunities
Take advantage of 2024 and 2025 updates

Is it time to hire a CFO?

The benefits of cost allocation

NEWSBYTES

LaPorte CPAs & Business Advisors

New Orleans | Houston | Baton Rouge | Covington | Houma
Check out our Nonprofit Industry Group page and nonprofit blog.
laporte.com/industry/nonprofit

SECURE 2.0 opportunities

Take advantage of 2024 and 2025 updates

President Biden signed the Setting Every Community Up for Retirement Enhancement (SECURE) 2.0 Act into law in late 2022, but much of the wide-reaching retirement legislation is being phased in over time. There are some significant changes in 2024 and 2025 that may help nonprofit employers recruit and retain employees. Here's what you need to know.

New for 2024

Several changes took effect January 1, 2024, including:

Matching for student loan repayments. Younger employees can sometimes miss out on their employers' matching contributions to retirement plans because of their student loan obligations. SECURE 2.0 allows employees to receive matching contributions to retirement accounts based on the qualified student loan payments that they have made.

Nonprofits can make matching contributions to a 403(b) plan, 401(k) plan or SIMPLE IRA if contributions based on student loan payments are available to all match-eligible employees.

"Starter" 401(k)s. SECURE 2.0 establishes a new retirement plan known as a starter 401(k). This is a type of cash or deferred arrangement that you generally can offer as long as you don't offer another qualified retirement plan. You'll need to automatically enroll all employees at a deferral rate of at least 3%, but no more than 15%, of compensation. The maximum annual deferral is $6,000 (indexed for inflation) plus the annual catch-up contribution amount for participants over age 50.

You can enforce age and service requirements and employees can elect out of plan participation. Employees can elect to contribute at a different level, but employer contributions aren't permitted.

Emergency funds. SECURE 2.0 contains multiple provisions permitting emergency access to retirement savings. For example, employers now can link an after-tax Emergency Savings Account to employees' retirement accounts.

You can automatically enroll nonhighly compensated employees with a deferral rate of up to 3% of compensation but no more than $2,500 annually (indexed), or lower

SECURE 2.0 amps up the potential for QCDs

Qualified charitable distributions (QCDs) have been a mutually beneficial giving tool for donors and nonprofits. SECURE 2.0 boosts the advantages, possibly leading to larger gifts for your nonprofit.

Under existing law, a taxpayer can distribute up to $100,000 per year directly from an IRA to a qualified charity beginning at age 70½ ($200,000 for married couples filing jointly if both spouses are age 70½ or older). The distribution doesn't qualify for the charitable contribution deduction, but the distribution is removed from taxable income and treated as a required minimum distribution from the IRA.

SECURE 2.0 provides for the $100,000 annual distribution limit to be indexed annually for inflation beginning in 2024, so donors can make larger QCD donations over time.

if you choose. Participants can make withdrawals tax- and penalty-free. You must allow at least one withdrawal per month, with no fee for the first four withdrawals each year.

The law also enables one annual penalty-free early withdrawal from a qualified retirement plan for "unforeseeable or immediate financial needs relating to personal or family emergency expenses." Participants have three years to repay the early withdrawal, but no additional emergency withdrawals are allowed during the repayment period.

Roth 401(k) RMDs. Roth 401(k) plans traditionally have been subject to annual required minimum distributions (RMDs). As of the beginning of 2024, though, designated Roth 401(k) contributions aren't subject to RMDs until the death of the participant.

As of the beginning of 2024, designated Roth 401(k) contributions aren't subject to RMDs until the death of the participant.

New in 2025

Even more provisions kick in next year. For example, employers with 401(k) and 403(b) plans that were adopted after December 29, 2022, will be required to automatically enroll all eligible employees, with a deferral rate of at least 3% but not more than 10%.

The rate will automatically increase by 1% per year, up to at least 10% and no more than 15%. Employers with 10 or fewer employees, church plans, and those that have been in business for fewer than three years are exempt from the automatic enrollment requirements.

In addition, the annual catch-up contribution limit for individuals age 60 to 63 will go up to $10,000 or 150% of the regular catch-up limit, whichever is greater. The percentage will be adjusted for inflation after 2025.

Finally, long-term part-time employees age 21 and older who work at least 500 hours per year for two consecutive years must be allowed to contribute to 401(k) and 403(b) plans. For 2024, the requirement was that part-time employees must log at least 500 hours for three consecutive years.

Don't forget to update your documents

The numerous changes triggered by SECURE 2.0 likely mean you'll need to amend your plan documents, if you haven't already. You generally have until the end of 2025 to amend, but it's never too early to get started.

Is it time to hire a CFO?

Let's face it: Most nonprofits are founded on a passionate belief in service. This doesn't always include a passion for numbers. To fill this gap in financial expertise, nonprofits often hire chief financial officers (CFOs). But do all nonprofits — including small organizations — need one?

CFO defined

Generally, the CFO (or "director of finance") is a senior-level position charged with oversight of an organization's accounting and finances. This person works closely with the executive director, audit/finance committee and treasurer and serves as a business partner to program heads. In general, the CFO reports to the executive director and board of directors on the organization's finances, analyzes investments and capital, develops budgets, and devises financial strategies.

The CFO's role and responsibilities vary significantly depending on the organization's size, as well as the complexity of the organization's revenue sources. In smaller nonprofits with budgets of $1.5 million to $10 million, CFOs often have wide responsibilities — which may include accounting, human resources, facilities, legal affairs, administration and IT. Midsize organizations, with budgets running up to $40 million and fairly simple funding and programming, also may require their CFOs to cover such diverse areas.

In larger nonprofits, though, CFOs usually have a narrower focus. Their focus is on accounting and finance issues, including risk management, investments and financial reporting. CFOs of midsize organizations with diverse programs (for instance, several programs that generate revenue) or governmental funding may have a similar (narrower) focus.

The CFO's role and responsibilities will vary significantly based on the organization's size, as well as the complexity of its revenue sources.

Nonprofit size

Nonprofits with small budgets and straightforward operations usually assign the accounting and finance responsibilities to their executive director or outsource such functions. As your organization grows and its financial matters become more complex, a CFO may be the right answer.

Experts suggest weighing the following factors when determining whether to bring a CFO on board: 1) size of your organization, 2) complexity and types of revenue sources, 3) number of programs that require funding, and 4) strategic growth plans. Static organizations are less likely to need CFOs than nonprofits with evolving programs and long-term plans that rely on investment growth, financing and major capital expenditures.

Candidate qualifications

Your nonprofit should devote considerable effort and time to hiring a CFO with the right qualifications. At a minimum, you'll want a person with in-depth knowledge of the reporting and accounting rules for nonprofits. A CFO who has worked only in the for-profit sector may find the differences difficult to navigate. Nonprofit CFOs also need a familiarity with funding sources, grants management and, possibly, single audit requirements.

The ideal candidate should have a certified public accountant (CPA) designation and, optimally, an MBA. In addition, the position requires strong communication skills, strategic thinking, financial reporting expertise and the creativity to deal with resource restraints. It's useful when CFOs have experience with a wide range of functions — for example, human resources and IT — so that they can identify when outside professional expertise is needed.

Finally, you'd probably like a CFO (and every employee, for that matter) to have a genuine passion for your organization's mission. Nothing motivates employees like dedication to the cause. And, in the case of a CFO, this makes it easier to understand that success for a nonprofit isn't only about the bottom line.

Outsourcing alternative

Does your organization lack the size or complexity to warrant having a full-time CFO on staff, but desire the financial peace of mind the position can provide? You might consider outsourcing CFO responsibilities to an accounting firm or other service provider. Outsourcing can produce several benefits.

Specifically, outsourcing allows you to obtain cost-efficient access to top-notch expertise. Nonprofits often look to their existing staff when filling the CFO position, but your in-house accountant may not possess the requisite financial knowledge you and your organization need.

Deciding to hire a CFO

Although founders and executive directors often try to oversee all aspects of their organization, hiring a CFO to manage your nonprofit's financials may be a better option. Contact us for more information. ■

The benefits of cost allocation

Cost allocation can be a cumbersome task for nonprofits, especially organizations with many activities. However, the process is critical for multiple reasons, and it's worth reviewing your cost allocation practices regularly to ensure they're working as intended.

Why make allocations?

Cost allocation often refers to how an organization's costs are assigned to its programmatic, administrative and fundraising activities to determine the actual costs of those activities. While it's obvious how some costs (usually direct costs) should be allocated, indirect costs (for example, management compensation, utilities, rent and other overhead) can prove more challenging.

Proper cost allocation is important to nonprofit management. It's a prerequisite for accurate financial statements, which enable informed decision making on a variety of matters, including budgeting, cost cutting and program evaluation.

Cost allocation also is indispensable when it comes to grant compliance. Grants often come with budgetary and expense restrictions. Proper allocation helps you ensure adherence with grant terms and conditions. It also can reduce the risk of charging the same expense to multiple grants. And, regardless of whether you deal with grant funds, cost allocation is vital for sustainable operations. Without a reliable account of your costs, you could unexpectedly fall short of the funding needed to maintain operations, forcing you to dip into reserves or other unrestricted assets.

Allocating indirect costs such as management compensation, utilities, rent and other overhead can prove challenging.

Allocation methods

There are different methods to use to allocate expenses. For example, costs can be allocated to an activity based on the:

- Proportion of total employee hours that have been spent on it,
- Proportion of facility space dedicated to it, or
- Usage percentage of expenses such as supplies or equipment for it.

The selected method or methods need to be reasonable. If federal funds are involved, the methodology must comply with the cost principles in the Office of Management and Budget (OMB) Uniform Guidance. Your allocations may differ depending on the reasons for allocating.

Other tips

It's generally wise to limit the number of different methods you use to avoid confusion and make it easier to apply the methods consistently. Developing a formal written policy that supports the methodology choices and explains how and when to apply them will also aid in consistency.

Rather than allocating each cost individually, you can simplify the process by grouping costs for similar functions into cost pools. For example, pool all indirect costs related to marketing. You can then allocate the pool to different activities. Note that the allocated percentage can differ depending on the cost category. A program might, for instance, be allocated a larger percentage of rent than of fundraising expenses, based on the method of allocation.

Make sure you maintain documentation to support your computations. When allocating salaries, you might need timesheets or other time-tracking data. For square footage allocation, you'll need up-to-date measurements for the different departments.

Finally, review your cost allocation policy at least annually and whenever your organization has any substantial changes in programming or other activities. If you determine you should change methodologies for your new circumstances, document how and why you selected a different method.

Ask for help

Whether you're reviewing an existing cost allocation policy or choosing methodologies for the first time, a CPA with nonprofit experience can help. Your auditors can review to avoid audit adjustments later on.

NEWSBYTES

What to know about Charity Navigator's updated methodology

Nonprofit evaluator Charity Navigator — which has rated nearly 210,000 organizations as of Fall 2023 — has made significant changes to how it calculates its scores. Its Accountability & Finance scores now are calculated based on defined nonprofit characteristics. Larger, donor-funded charities will undergo an in-depth evaluation, while organizations that are smaller or not funded by donors will be assessed with a more-focused set of metrics. Charity Navigator also is removing metrics such as administrative expense ratios, fundraising ratios and program expense growth metrics.

Notably, Charity Navigator is taking steps to account for anomalies caused by the COVID-19 pandemic. For example, if the pandemic significantly affected a nonprofit's revenue in 2020 or 2021, that year's IRS Form 990 will be removed from the Accountability & Finance score calculation — welcome news for many organizations. ■

Engaging donors as public trust in nonprofits continues to fall

Independent Sector's fourth annual *Trust in Civil Society* report reveals that a decline in nonprofit trust accelerated in 2023. Just 52% of Americans surveyed indicated that they trust nonprofits to do what's right—a drop of 4% from the previous year. As the CEO of

Independent Sector noted, challenges confronting nonprofits and philanthropy become increasingly more difficult without trust.

According to the report, engagement with the public is more important than ever in this environment. As with past studies, the most recent survey found that familiarity is strongly correlated with trust, but personal engagement is critical. Those who regularly engage with nonprofits have greater trust in the sector. And nonprofit messaging that focuses on value statements and data (rather than data alone) is most effective at building trust. ■

DOE announces $45 million for energy-efficiency upgrades for nonprofits

The U.S. Department of Energy (DOE) has released details on its new Renew America's Nonprofits grant. The grant will provide $45 million in awards to nine "Prime Selectees." The selectees will collaborate with nearly 40 partners to deliver energy improvements in approximately 300 facilities across 28 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

According to the DOE, energy costs are among the highest operational expenses for nonprofits. So, reducing energy use can free up a meaningful percentage of funds. Prime Selectees will "subaward" grants of up to $200,000 per facility and provide expertise in energy and project management to help execute much-needed retrofit projects. At least 60% of subawards will go to nonprofits in disadvantaged communities. ■

LaPorte
CPAs & BUSINESS ADVISORS

111 Veterans Memorial Blvd, Suite 600 | Metairie, LA 70005-3057
504.835.5522 | FAX 504.835.5535

It's a new year! Make a resolution to start off on the right foot by familiarizing yourself with new payroll requirements and refreshing your memory about ongoing tasks.

What's New for 2024

- There are new 2023 IRS Electronic filing requirements for reporting in 2024, which includes W-2s and 1099s along with other informational forms. In aggregate, if you file at least 10 forms you must file electronically. These regulations are effective for 2023 tax returns required to be filed in 2024. For additional information please see our blog on the topic located at: laporte.com/knowledgecenter/tax-services/irs-expands-e-filing-with-new-penalties-for-more-paper-forms
- A Federal Insurance Contributions Act (FICA) limit increase is effective January 1, 2024. The social security rate of **6.2%** applies to the first **$168,600** of 2024 wages and Medicare tax of **1.45%** applies to all wages. In addition, employers are required to withhold additional Medicare tax of **0.9%** on wages in excess of **$200,000**. The employer is required to "match" the employee's social security (6.2%) and Medicare tax (1.45%) but **does not** match the 0.9% of additional Medicare tax withheld.
- The IRS released a DRAFT IRS 941 Employer's Quarterly Federal Tax Return form for Q1 2024. Note: draft forms are not for filing. Look for the new final form prior to completing Q1 2024.
- There is a revised 2024 W-4 form Employee's Withholding Certificate. New employees and current employees making changes to their federal withholding are required to complete the new W-4.

Reminders

- **Payroll Software**
  Run updates in your payroll software at the beginning of each year and check for payroll updates prior to running quarterly payroll reports.
- **Newly-Hired Employees**
  For all new hires and rehires, the New Hire Report must be submitted within 20 days of hire and must contain the name, address, occupation classification, job title, pay rate, hire date, and social security number of the employee; and the name, address, state EIN and federal EIN of the employer.
- **FICA and Federal Withholding Tax (FWT) Deposit Rules – avoid penalties by being timely and accurate**
  - Make your 941 deposits as follows:

    Monthly depositor: by the 15th of the following month

    Semiweekly depositor:
    - Wednesday, Thursday, and/or Friday paydays deposit by the following **Wednesday**
    - Saturday, Sunday, Monday, and/or Tuesday paydays deposit by the following **Friday**
  - Organizations must use Electronic Federal Tax Payment System **(EFTPS)** to make payroll tax deposits and other federal tax payments. You may make a payment with Form 941 instead if your total tax liability for the quarter is less than $2,500.
  - If the total accumulated tax liability reaches $100,000+ on any day during a deposit period, it must be deposited by the **next banking day** whether you are a monthly or semiweekly depositor. If a monthly depositor accumulates a $100,000 employment tax liability on any day, that depositor becomes a semiweekly depositor on that day and remains so for at least the remainder of the year and the following calendar year.
- **Federal Unemployment Tax (FUTA) Deposit Threshold**
  An employer must deposit FUTA tax once its liability reaches an accumulated amount of $500. For 2024, the FUTA tax rate is 0.6% and applies to the first $7,000 you pay each employee as wages during the year.

So start the new year off right by making sure you are using updated information and forms. If you have any questions, please reach out to LaPorte Nonprofit Industry Group Co-Leader Dawn Laborie (dlaborie@laporte.com).