



# Profitable Solutions for Nonprofits

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ASU 2023-08

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# What now?

## Filling funding gaps made by government cuts

If your nonprofit depends on government grants — particularly federal government grants — you're probably dealing with a lot of uncertainty right now. But even if funding for the next year (or longer) is in doubt, your organization has options. Several avenues may be available to replace lost revenue. Let's take a look.

### Big piece of the pie

According to the Urban Institute, government funding accounts for approximately one-third of the revenue flowing into the nonprofit sector. This includes state and local government grants that often are funded indirectly by the federal government.

In every state, 60% to 80% of nonprofits that receive government grants would be at risk of financial shortfall without this funding. A reduction or elimination of federal funding can easily threaten an organization's survival.

### Proactive steps

Taking specific steps can help mitigate the financial consequences associated with funding cuts. Management should, for example:

**1. Assess the risk.** Don't wait until you receive notice of a funding cut. Assess potential damage now to plan appropriately. If you suffered funding cuts or delays in early 2025, you may already know how further cuts would affect your budget and ability to pursue your nonprofit's mission.

For a better handle on the situation, review upcoming expenses and liquid assets on hand to determine how many months of operating expenses you'd likely be able to cover. The shorter the period, the sooner you should act to line up other revenue sources or reduce spending (see "Cost cutting: The other side of the coin" on page 3).

**2. Reach out to donors.** As many did during the COVID-19 pandemic and the 2008 recession, some major donors may be willing to waive or at least relax restrictions on their gifts, allowing you to use the funds for operations and programming. To encourage the support of other donors, illustrate the outcomes made possible



## Cost-cutting: The other side of the coin

If you lose a critical piece of your nonprofit's funding, you might need to look for ways to offset the decline on the other side of the ledger — by reducing expenses. Possibilities include:

**Staffing.** Reducing staff expenses doesn't necessarily mean layoffs. You could, for example, increase remote work, which might allow you to reduce facilities costs. You could also trim hours or employee benefits.

**Facilities.** For most nonprofits, rent or mortgage payments take a significant bite from their budgets. If you have multiple sites, consider consolidating them into a single location. Or ask your landlord or mortgage lender if they're willing to negotiate lower monthly payments. And if you own your facilities, think about renting out unused space.

**Collaborations.** Many other nonprofits are in the same situation. Consider finding one willing to share space or other resources. Or you could combine purchase orders with those of one or more other organizations to obtain lower prices or discounts from vendors.

because of previous gifts and explain in concrete terms the impact of lost federal funding. For instance, show how many people will go without meals, job training or health care. Also, highlight the tax benefits of donating through a donor-advised fund or IRA charitable distribution.

### 3. Pursue major gifts.

For some organizations, the threshold for a major gift might be \$1 million, but for many small nonprofits, \$1,000 could be a sizable contribution. You can identify possible major gift sources by listing your

top 50 to 100 active funders. Research them to determine if they have the wealth and philanthropic inclinations to make more significant gifts. Then, develop a compelling message that conveys the urgent need for substantial donations to your organization.

Ensure that appeals to these supporters are delivered personally, not via mail or email. Your executive director and board members might call or arrange to meet with those on your list. Even if individuals or grant makers don't give immediately, nurturing such relationships can pay off down the road when they're inclined to provide financial support.

**4. Encourage planned giving.** It may seem like a luxury to devote limited resources to planned giving when facing near-term budget holes. However, 2025 is prime time to discuss the topic with Baby Boomers. The so-called Great Wealth Transfer, during which Boomers are expected to leave about \$84 trillion by 2045, is already on.

If you secure planned giving agreements, you aren't only boosting future financial support. Research published in the *University of California Davis Law Review* suggests that annual giving naturally

increases when individuals incorporate a charitable component into their estate planning. It shouldn't necessarily reduce current support, particularly if you have longtime donors with an emotional stake in your organization.

**Some major donors may be willing to waive restrictions on their gifts, allowing you to use the funds for operations and programming.**

### Time to get creative

Over the next several years, your nonprofit may need to become more creative to ensure it has sufficient financial resources. We can help you assess your current financial situation and suggest revenue-generating ideas. ■

ASU 2023-08

# New accounting rules for crypto donations go into effect

Nonprofits increasingly receive donations in the form of cryptocurrencies such as Bitcoin and Ethereum. As digital assets have become more common, so has the need for clear and consistent accounting standards. The Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2023-08 to help tax-exempt organizations recognize and report crypto donations. This new guidance took effect for fiscal years beginning after December 15, 2024, and nonprofits are permitted to adopt it early. If you haven't already, get up to speed on the rules.

## What does it change?

In the past, cryptocurrency holdings were recorded as indefinite-lived intangible assets under ASC 350, similar to the treatment of any trademarks or copyrights. ASC 350 required organizations to report crypto at the lowest value it reached since acquisition (referred to as "impairment"), even if the asset later regained or exceeded its original value. Such reporting can lead to distorted financial statements.

ASU 2023-08 introduces a significant change: Cryptocurrencies must now be measured at fair value, and any shifts in value must be recognized in the statement of activities. This enables you to:

- › Report the current market value of crypto assets on financial statements,
- › Recognize both gains and losses as they occur, and
- › Reduce the need for complex impairment testing.

Note: These new rules apply to crypto assets that are intangible and fungible and that don't provide enforceable rights to goods or services.

## Implications for nonprofits

For charitable organizations, ASU 2023-08 has several important implications. First, nonprofit financial statements are likely to reflect the real-time value of



crypto donations more accurately, thereby aiding your decision-making. Also, these rules replace a burdensome impairment model with a more straightforward fair value approach, saving you time and reducing audit complexities.

However, understand that fair value accounting will introduce more visible swings in the value of crypto donations, especially if you hold them for extended periods. Ensure you have access to reliable market data for valuing crypto assets. You may also need to review your organization's internal controls regarding crypto custody and valuation.

### Take action now

ASU 2023-08 uses a fair value model to align cryptocurrency accounting with reporting for other market-traded investments such as stocks. To prepare for the change, your nonprofit should

review its crypto-related policies and consult with your board's audit or finance committee to help ensure smooth implementation. Accounting for crypto remains a complex endeavor, so reach out to us. ■

## Tax and legal liability

# Ease the minds of your volunteers

The number of Americans volunteering for charity dropped dramatically during COVID-19 lockdowns. However, numbers have since rebounded to near pre-pandemic levels, according to the U.S. Census Bureau and AmeriCorps. If your nonprofit is still struggling to find enough volunteers, consider making unfilled positions more appealing to prospective volunteers. How? Start with tax and legal liability. No volunteer wants unpaid work to open the door to extra tax obligations or unanticipated lawsuits.

### Answering to the IRS

It may not have occurred to you that federal or state taxing authorities would come after charitable volunteers. But it can happen. Your organization could inadvertently create taxable income for volunteers if you provide them with benefits, services or compensation beyond reimbursements. Reimbursements that exceed actual expenses are taxable. So you should only reimburse actual out-of-pocket expenses incurred while performing volunteer services.

If volunteers occasionally need to cover costs with their own money (for example, purchasing decorations for an event or refreshments for a meeting), inform them in advance that they must provide you with records and receipts of their expenditures. Explain this policy both verbally and in writing.

### See you in court

Volunteers also face a risk of being sued for their actions (or inactions) while performing services for your nonprofit. The threat is particularly significant with nonprofits that provide medical services or that work with vulnerable populations such as children or disabled people. However, even simple tasks, such as driving, can result in litigation.

**To minimize risk, carry comprehensive general liability insurance that specifically covers volunteers.**

The Federal Volunteer Protection Act of 1997 provides a partial shield for volunteers acting within the scope of their responsibilities. Many states have similar laws to protect volunteers. But the limitations on liability can vary significantly from state to state, with different limits, conditions and exceptions. Consult with your legal counsel to determine if state or local laws might impact your volunteers.



your auto policy covers them and, if necessary, add them as insureds. Larger organizations might consider amending their bylaws to include a broad indemnification clause for volunteers if claims against them exceed insurance limits.

Additionally, consider implementing processes and procedures to mitigate the risks of harm or injury caused by volunteers. For example, devote time upfront to screen and train volunteers appropriately and restrict certain client-facing activities to employees. If you work with at-risk populations, it's a good idea to perform background checks on volunteers and provide close staff supervision when volunteers are working with clients.

### Insurance reduces risk

Keep in mind that volunteer protection laws don't preempt the need for appropriate insurance coverage. Some state laws explicitly require nonprofits to carry insurance to limit volunteer liability. To minimize risk, carry comprehensive general liability insurance that specifically covers volunteers, as well as Directors and Officers liability insurance. If volunteers will operate your nonprofit's vehicles, check whether

### Other ideas

Tax and legal liability may not be top-of-mind for all volunteers, but it's something you should consider when recruiting them. Other ways to attract people include writing detailed job descriptions or asking potential volunteers how they'd like to contribute to your organization — and then creating positions to meet their needs. ■

## Handling controversial contributions

In economically fraught times, it's hard to envision a scenario in which your nonprofit would turn down a donation. But suppose that donation has the potential to put your organization in the hot seat because the donor is involved in illegal, unethical or controversial activities. In that case, it may be in your organization's best interest to refuse the financial support.

### Point, counterpoint

The risk of reputational damage is a compelling reason to decline controversial contributions. You might find that some of your current supporters are among

the most vociferously opposed to these donations. Disagreements also divert attention from your ethical standards and positive accomplishments, not to mention alienating future donors.

However, arguments can be made to hold on to controversial donations. Not every donor is an angel or operating from purely altruistic motives. Insisting otherwise could drastically reduce revenue. The argument goes that money given to a nonprofit generally benefits society as a whole, particularly when the recipient engages in social welfare work. And, if you turn away funds, you could have to cut programs, dip into your endowment or sell other assets.

### Put research front and center

A simple policy that helps prevent later embarrassment and regret is to research all prospective donors who promise gifts over a certain amount. Most nonprofits can't afford a full-time staff dedicated to donation due diligence. But you might ask a board member or other volunteer to perform some basic searches. At the very least, search the donor's name online using terms such as allegation, bankruptcy, bribe, controversy, court, fraud, human rights, investigation, prosecution, unethical and scandal.

Web searches can uncover vital information, including the source of a donor's wealth, possible legal entanglements, support for other nonprofits and the historical business practices of any companies they own or control. Pay particular attention to the person's public statements, such as those posted on social media, as well as stories from reputable news outlets. If such investigations seem outside your nonprofit's wheelhouse, you may want to pay a professional background search service to look into more prominent donors.

### Gift acceptance policy

Include a research requirement in any formal gift acceptance policy. A policy can help guide you when you need to make an important decision under pressure. If you have to refuse a gift, for instance, you can simply point the donor to your policy.

The policy should explicitly state which donations you'll accept and which you won't. Most organizations refuse donations of stolen funds or those clearly generated illegally. But what about "clean" donations that you suspect are given to support a dicey donor's public relations efforts? What about anonymous gifts? Some nonprofits find anonymous

donations risky by nature, but you may decide you can safely accept them.

If you accept donations from controversial donors, you'll likely need to explain that decision at some point. So, include communications guidelines in your gift acceptance policy. Determine who will speak for your organization, which channels you'll use and how much information you'll share.

### Surprise!

Also establish a process for handling gifts from donors that become controversial only after you've received them. It may help to consider this real-life example where the donor's business actions directly affected the interests of a charity's clients.

A pharmaceutical company's new owner made headlines for dramatically increasing the cost of critical medications. At that point, some of his charitable contributions became public. One nonprofit that supports homeless people, some of whom depend on the drugs of the donor's company, returned his gift. But the donor's alma mater didn't. The educational institution apparently decided that the owner's business decisions didn't undermine its academic mission.



### Stick to your values

Regardless of where you stand on common gift acceptance scenarios, ensure your policy is clear and explicit. Generally, if a donation appears suspicious or inconsistent with your mission, it's prudent to decline it. In such cases, be sure to obtain board feedback and ensure that all decision-makers are in agreement. ■



# LAPORTE

CPAs & BUSINESS ADVISORS

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

The **LaPorte Nonprofit Industry Group** of over 35 professionals serves nonprofit clients in a variety of organizations. We take great pride in our longstanding dedication to supporting the nonprofit community by the sharing of valuable knowledge and resources such as our quarterly newsletter and annual educational series.

Now entering its tenth year, our annual Nonprofit Educational Series aims to deliver insights on a broad range of issues relevant to nonprofits. Recent sessions, presented by our experienced nonprofit industry specialists or strategic partners, have addressed board governance, cybersecurity, anti-fraud internal controls, ethics and the 990, and new accounting standards to name a few. For a preview, select recordings of previous presentations can be viewed at <https://bit.ly/LaPorteNonprofitSeries>.

We are currently planning our upcoming Nonprofit Educational Series for Summer 2025. Topics tentatively include building a better board, how to handle the loss of federal grant funds, and the use of artificial intelligence in the nonprofit sector. If there are specific topics you'd like us to address in future, please share your suggestions by emailing Nonprofit Industry Group Co-Leaders Karine Makaryan, CPA, at [kmakaryan@laporte.com](mailto:kmakaryan@laporte.com) or Jack Wiles, CPA, at [jwiles@laporte.com](mailto:jwiles@laporte.com).

Keep an eye out for invitations coming your way soon!