

Profitable **Solutions** *for* **Nonprofits**

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Wrapping up a gift acceptance policy

When you receive a gift from a contributor, do you immediately feel fortunate and quickly send a thank-you note from your organization? If you do, that's likely a mistake, because all gifts aren't created equal. Having a gift acceptance policy to refer to — and using it to decide if you should accept a donation — is important to your organization's balance sheet, workload and reputation.

SAYING "NO" TO A GIFT

While it might be human nature to accept gifts graciously, some nonprofits are turning certain gifts down, citing issues of condition, space limitations and unsuitability to their missions.

A gift acceptance policy provides an objective way to decline a gift but still maintain a good relationship with the contributor. A representative of your nonprofit can explain to the donor that previously set policy doesn't allow your organization to accept the gift — in other words, "it's nothing personal."

Moreover, a gift acceptance policy contributes to good governance because it disciplines your organization to weigh the advantages and disadvantages of accepting and administering a gift. Also, the revised IRS Form 990 asks nonprofits receiving more than \$25,000 in noncash contributions whether they have a gift acceptance policy. (A policy isn't legally required, and the form currently solicits no details.)



FINDING A PERFECT FIT

A strong gift acceptance policy describes what kinds of gifts are acceptable and how they will be managed by your organization. It also should state your organization's mission, the policy's purpose, and the types of gifts that should be reviewed by an attorney before they're accepted. And it should include the role of your nonprofit's gift acceptance committee, if you have one, and the steps involved in an annual review of your gift policy and who will conduct it.

Mold your policy to fit your nonprofit's size and characteristics and involve both your staff and your board in the development process.

JUDGING WHAT YOU CAN HANDLE

When forming your gift acceptance policy, start with a self-assessment. Your nonprofit must determine its ability to manage each type and form of gift. For example, it may not want to accept gifts of real estate if it isn't staffed to manage the property or isn't willing to act as the landlord.

Another example: Tangible personal property, such as furniture or collections, may need insurance, special display cases or off-site storage. This could require your organization to incur substantial out-of-pocket costs for years to come. Ask yourself if your nonprofit has the resources to manage such gifts — and whether it wants to do so.

Some gifts will incur extra expense, such as a special cabinet to display that rare coin collection.

All policies should state that gifts that conflict with your organization’s mission should be rejected. The policy also should address how gifts will be managed and invested (if applicable) and how the nonprofit will dispose of them.

Pay special attention to any restrictions that donors place on gifts. Almost all organizations prefer unrestricted gifts so they can use the funds as they wish. But donors of personal tangible property likely will want to specify how their gift will be used.

UNDERSTANDING WHAT’S WHAT

Gifts typically fall into two categories. With *current gifts*, your charity receives property or money from a donor, and the donor receives no financial benefit other than a tax deduction. There may be restrictions on how the gift can be used, but your organization — not the donor — has control.

In the case of *split interest gifts*, the donor transfers an asset (or an interest in it) to your organization but draws income from the gift or receives a remainder interest at some point in the future. Or the donor names another beneficiary to receive the income or remainder interest. Common forms of split interest gifts are charitable gift annuities, charitable remainder trusts and charitable lead trusts.

Investment responsibilities and obligations to the donor or the donor’s family come with a split interest

gift, so make sure you have the resources to monitor it properly. Your administration of the gift should demonstrate fairness to both your nonprofit and the donor.

CONSIDERING ALL THE ANGLES

Some gifts will incur extra expense, such as a special cabinet to display that rare coin collection or an insurance policy to protect its value. Here are examples of two other types of gifts requiring special attention:

Securities. While publicly traded securities are easy to convert to cash, closely held stock may be hard to value and sell. So different policies are needed for each type of security.

For example, because donors of publicly traded stock often have the expectation that the nonprofit will hold on to the stock, gift acceptance policies typically state that stocks are to be sold upon receipt. That way the donor won’t be unpleasantly surprised if you sell the stock. This also ensures flexibility managing your investment portfolio.

Gifts of closely held stock, on the other hand, require scrutiny before acceptance because of the valuation, liquidity and other complex issues that affect such stock. Your gift acceptance policy should outline the steps your organization must take before acceptance.

Real estate. Many steps precede accepting a gift of real estate, including getting a recent appraisal from the donor and a disclosure of any property liens or other encumbrances. And your organization likely will need to contract a hazardous waste audit.

Additionally, there are different types of intangible personal property that may be donated to a charity, such as life insurance policies, intellectual property and royalties. Your policy should describe how these gifts will be valued and administered.

GETTING AN OUTSIDE OPINION

Your financial advisor and an attorney should review your gift acceptance policy before it comes before the full board for approval. After your policy is in place, review it annually. Resources could change, and your experiences might dictate revision. *

Internal controls: Is it time for a check-up?

Like many other not-for-profits, you might have cut staff during the recent recession — and that means fewer people to “mind the store.” As the economy continues to mend, now is a good time to inspect the condition of the internal controls that safeguard your organization’s finances.

“REALITY-CHECK” YOUR RISKS

Review your risk assessment to identify any new risks in light of organizational changes. Many of your employees (and volunteers) may be under greater pressure in their personal lives to make ends meet. This can result in greater temptation and fraud risk. Maintaining strict controls is essential to minimizing those risks.

HANDLE INFLOWS WISELY

Receiving funds is an important job that shouldn’t be overlooked or undersupervised. This pertains to cash donations from a fundraiser, routine receivables or investment interest.

Your internal control policies should specify that no one person has sole responsibility for tasks such as opening the mail, recording incoming payments and making bank deposits. The risk increases if a person is involved in these functions and also performs financial or accounting functions such as making journal entries, writing checks, or performing bank reconciliations.

If you’re a small organization or have limited accounting staff, consider providing the necessary checks and balances by enlisting help. This could be from an employee in another department, a trusted board member or an outside accounting service.

MONITOR OUTFLOWS CLOSELY

You also need to maintain policies for financial outlays, such as requiring dual signatures on checks over



a certain amount. In fact, you may want to lower your current threshold of expenses or payments that trigger review or a co-signature, and perform more random check audits.

But keep in mind: Many fraud perpetrators write unauthorized checks that are just under the review limit. And first-time offenders are likely to start small before they move on to bigger schemes.

Many fraudsters set up an illegitimate vendor and draft invoices for services or work that’s never done. Of course, the money comes back to the fraudster. Or the vendor is legitimate, but payments are diverted to personal use. Review and approval of journal entries and adjustments is a key control for all organizations.

CONSIDER OUTSIDE HELP

With budgets tight, you may have eliminated outside bookkeeping, accounting or audit help and brought these tasks in-house. But consider the bigger picture. In many cases, outsourcing provides you with expertise you might lack and a level of monitoring you need. So to reduce risks, you may want to reinstate this function.

Additionally, asking outside professionals to look into your books and interact with your staff is one of the best ways to prevent fraud. A third-party assessment of your transactions can identify potential irregularities. And like an alarm-system sign in the window of your home, a third party's presence may deter those tempted to exploit vulnerabilities.

TOO IMPORTANT TO OVERLOOK

Remember, good governance is a critical, nonnegotiable responsibility. A key fiduciary duty of every board is the oversight and monitoring of internal controls sufficient to protect and safeguard the organization and its people. Despite staff and budget cuts, consistently make sure that your internal controls are up to par. *

DON'T RELY ON YOUR AUDIT

Many nonprofit managers mistakenly think their annual audits will detect fraud. Although auditors do review internal controls, an audit isn't designed for fraud detection.

That's why you need to stay on top of your organization's risk assessment and internal controls, revisiting and updating them regularly. Your financial advisor can help you customize internal controls based on your specific needs and compliance requirements.



Just for nonprofits

Accounting rules change for mergers and acquisitions

New rules from the Financial Accounting Standards Board (FASB) have a bearing on your organization if it recently merged with or acquired another not-for-profit organization. They also merit review if you're contemplating such a move.

Statement of Financial Accounting Standards (SFAS) No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, issued in 2009, sets rules especially for nonprofits. The rules also are listed under Section 958-805 of the Accounting Standards Codification, the FASB's new

system for accounting standards. Before SFAS 164, nonprofits followed accounting rules designed for business — SFAS No. 141(R), *Business Combinations*.

THE NEW RULES

The new rules outline how a nonprofit should determine if a new combination of entities is a merger or an acquisition. They also provide guidance on how to apply the carryover method in accounting for a merger, or the acquisition method for an acquisition. Additionally, they show how to determine what information to



disclose to enable financial statement users to evaluate the nature and financial effects of a merger or an acquisition.

The rules take effect prospectively for mergers occurring on or after an initial reporting period beginning on or after Dec. 15, 2009, and for acquisitions occurring on or after the first annual reporting period beginning on or after Dec. 15, 2009.

MERGERS AND THE CARRYOVER METHOD

In general, a nonprofit involved in a merger must use the *carryover method*, under which the merged nonprofit's first set of financial statements carry forward the merging entities' assets and liabilities. These assets and liabilities are measured at their carrying amounts in the merging entities' books at the merger date. Unlike past practice, the merger itself isn't reported in the statements.

The merged nonprofit doesn't recognize *additional* assets and liabilities — or changes in the fair value of *recognized* assets and liabilities — that weren't already recognized under Generally Accepted Accounting Principles (GAAP) in the merging entities' financial statements before the merger. Be aware, however, that there are some exceptions.

ACQUISITIONS AND THE ACQUISITION METHOD

The *acquisition method* is required when one nonprofit acquires another nonprofit (or a business). The rules are similar to those followed previously by nonprofits — and still followed by for-profit businesses — under SFAS 141(R). But SFAS 164 adds guidance that's unique or particularly important to a nonprofit and uses nonprofit terminology.

Like SFAS 141(R), SFAS 164 specifies that assets and liabilities should be measured at fair value. This also applies to any noncontrolling interest in the acquiree as of the acquisition date. But there are many exceptions to the recognition and measurement rules; for example, a nonprofit isn't allowed to recognize acquired "donor relationships" separately from goodwill.

GOODWILL AND CONTRIBUTIONS

SFAS 164 makes a distinction between nonprofits that operate much like for-profit businesses — getting most, if not all, of their revenue from fees for services, sales and tuition — and those that rely heavily, if not entirely, on contributions and investment returns. Different rules for recording goodwill apply to these two nonprofit types.

For nonprofits largely supported by contributions and investment returns, any excess of the fair value of identifiable assets over liabilities is recognized as a "separate charge" in the statement of activities rather than as goodwill. And in certain cases, the reverse could result in a reported "contribution."

For nonprofits predominantly supported by business-like revenue, any excess of the fair value of identifiable assets over liabilities is recognized as goodwill.

GETTING HELP

Following these rules in your financial statements can be complicated, and significant new disclosures for mergers and acquisitions also are required. Your financial advisor can help you determine how the new rules will affect your organization if it joins forces with another entity. *

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DOS AND DON'TS OF SETTING PRICES

Does your organization agonize over setting prices for your products? Next time your staff starts assigning or shifting price tags, consider these dos and don'ts:

- ★ *Don't* use a one-size-fits-all formula when setting prices, such as "cost plus a 30% margin."
- ★ *Do* weigh what the market is willing to pay on a case-by-case basis and base price on the value of the product or service — for example, an environmental organization's 2010 T-shirt on the Gulf oil spill clean-up could be priced higher than its 2006 T-shirt on saving the American eagle, which was taken off the "endangered species" list in 2007.
- ★ *Don't* feel that you have to charge all buyers the same price: for example, an association member vs. a nonmember attending a seminar series.
- ★ *Do* consider charging higher prices to some customers and use the revenue to subsidize others via discounts. *



STATE, LOCAL GOVERNMENTS TURN TO NONPROFITS FOR CASH

With the economy still down, city, state and regional governments are looking under every rock for ways to remedy budget shortfalls. Momentum seems to be

building to reverse the property and sales tax exemptions of nonprofits. Pittsburgh, Pa., and the State of Kansas, for example, are looking at revoking nonprofits' property tax exemptions. Kansas is also considering eliminating its sales tax exemption for nonprofits.



Hawaii's state legislature recently passed a bill lowering the cap for itemized deductions, including charitable contributions.

Other moves that could affect nonprofits include the imposition of new fees and delay of payments under government contracts. For instance, the Minneapolis city council voted last year to subject nonprofits to the streetlight fees charged to businesses and residences. Illinois is reportedly more than five months behind in contract payments to some nonprofits. *

GUIDANCE ON HEALTH CARE TAX CREDIT NOW AVAILABLE

The IRS on May 17 issued new guidance to make it easier for tax-exempt organizations to find out if they qualify for the new health care tax credit and to estimate the amount of that credit. Under the Patient Protection and Affordable Care Act, for 2010 to 2013 a small tax-exempt employer may be entitled to a maximum credit of 25% of the employer's health insurance premium expenses that count toward the credit. Notice 2010-44 can be found on IRS.gov. The largest credit is available to an organization with 10 or fewer "full-time equivalent" employees. But even an employer with 50 employees — assuming most are part-time — may benefit. *

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