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News for Nonprofits

NONPROFIT AGENDAS

YEAR END 2018

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Is a merger right for you?

In the wake of the new tax law and other developments, many nonprofits are looking for ways to solidify their financial footing — including the possibility of merging with another organization. But a merger isn't something to be entered into lightly. It's a big step that requires careful planning and consideration.

Possible structures

The term "merger" is a bit of a catchall, and your organization may opt to pursue a different type of collaboration. In an actual merger, all the assets and rights of one organization transfer to the surviving organization. And the former nonprofit no longer exists as a legal entity. Notably, the surviving organization assumes all the merged-out organization's liabilities. There are several other popular ways to combine forces:

Consolidations are like mergers, except that both organizations are dissolved, and an entirely new entity is created that assumes all assets and liabilities of both former organizations. The new entity will need to apply for tax-exempt status.

In an *asset acquisition*, one nonprofit acquires identified assets — and possibly liabilities — of another. When dealing with two nonprofits, you could simply structure the transaction as a gift from one to the other. This approach usually is permitted if the transferring organization's creditors are either transferred, or paid in full, before it dissolves.

Alternatively, two nonprofits could enter into a *parent-subsidiary arrangement*. The "parent" doesn't own the other organization. But it takes control, for example, by serving as the sole voting member of the subsidiary's board or having the right to appoint the board members. Notably, though, the parent doesn't assume the subsidiary's liabilities. Each organization continues to function individually, with separate IRS filing obligations and boards of directors.

The parent-subsidiary arrangement — also known as an *affiliation of nonprofits* — can be implemented by amending the subsidiary's articles of incorporation and bylaws to describe the parent's control. If the arrangement doesn't work out as hoped, it can be reversed simply by amending the documents again. The organizations usually also enter an affiliation agreement that addresses a variety of topics, such as the subsidiary's activities.

State nonprofit corporation acts generally govern the processes and requirements for each of these transactions. Both state and federal laws must be considered when structuring the combination.

Due diligence

Each nonprofit should conduct a thorough investigation into the other organization's history, finances and operations *before* entering into a collaborative agreement. Neither party can afford to take due diligence lightly — the board members for the nonsurviving organization have a fiduciary duty to obtain reasonable assurances that the surviving organization can properly steward the nonsurvivor's assets postmerger.

The organizations should exchange a wide range of information, including corporate documents (for example, charters, bylaws and policies); financial statements and audit reports; and fundraising records and donor lists. They should also share third-party contracts, including grants and other funding; HR records; and meeting minutes.

Moreover, the two organizations should look at IRS determination letters and filings; documentation of exemptions from property, sales and other state or local taxes; real estate records; and current and pending litigation. Due diligence can be performed in phases so that more confidential or sensitive information isn't exchanged until further along in the process, as the combination becomes more likely. Final approval must come from each organization's board of directors and possibly its members.

Potential costs

Nonprofits often consider collaborations for financial reasons. But the process can come with significant costs, some of which aren't always obvious. Potential expenses include:

- Staff time, severance pay and professional fees (attorneys, accountants and consultants),
- Audit and filing fees,
- Rebranding and replacement of promotional materials,
- Moving expenses and infrastructure upgrades,

- Lease and loan buyouts, and
- Lost funding.

Other possible staff-related costs could include a need to increase some salaries to achieve organizationwide pay parity. This could happen if one of the nonprofits paid its employees significantly more than the other did.

Don't forget to report

Most nonprofits that end their operations by merging with another nonprofit must inform the IRS by filing a final Form 990, 990-EZ or 990-N. It must be filed within four months and 15 days of the organization's termination. Certain states also require notification to the state attorney general or other appropriate office. Keep in mind that a merger can be complex. Contact your CPA for assistance. ■

Volunteer retention

Keep old friends

Training a new volunteer is time-consuming and costly. And that's only one of many reasons why you want to hold on to your volunteers once you bring them into your organization.

Their value is high

When you consider the value of volunteers, it's easy to see how they're like paid employees. After all, the value of the average American volunteer has been estimated at $24.69 per hour, according to the nonprofit advocacy group Independent Sector. Volunteers who perform specialized services — for example, a marketing director who volunteers to revamp your social media presence — are, arguably, even more valuable. So why not "professionalize" your volunteer program? A well-run program can provide participants with a sense of ownership and "job" satisfaction.

Volunteers entering your program should receive a formal orientation and participate in one or more training sessions, depending on the complexity of the work they'll be performing. Even if they'll be contributing only a couple of hours a week or month, ask them to commit to at least a loose schedule. And, as with your paid staffers, volunteers should set annual performance goals. For example, a volunteer might decide to redesign your website, learn enough about your mission to speak publicly on the subject or work a total of 100 hours.

If volunteers accomplish their goals, you must recognize and reward them. Publicizing the fact that they have achieved certain objectives is important, but don't stop there. Also "promote" individuals who've proved they're capable of assuming greater responsibility. For instance, award the job of volunteer coordinator to someone who's exhibited strong communication and organization skills.

Their interests must be piqued

A formal program won't keep volunteers engaged if it doesn't take advantage of their talents or acknowledge their interests. What's more, most volunteers want to further your nonprofit's cause. So even if they must occasionally perform menial tasks such as cleaning up after a fundraiser, tell them how others benefit from those efforts.

To the extent you can, give volunteers assignments they want, in areas where they can make a difference. During the training process, inventory each volunteer's experience, education, skills and interests and be sure to ask if there's a project that attracts them. Don't just assume that they want to use the skills they already have. Many people volunteer to learn something new. Some even volunteer to get experience in a field they want to enter.

Girls (and boys) just wanna have fun

Although most people volunteer with the understanding that you'll put them to work, they also expect to enjoy the process — and even have fun. So be careful not to make the same demands on volunteers that you would on employees. Obviously, you don't want to waste time on high-maintenance individuals, but try to build some flexibility into their scheduling. Professional and family demands sometimes interfere, so try to accommodate them cheerfully.

Many volunteers are motivated by the opportunity to meet like-minded people. So, include socializing in your program. Newbies should be introduced to other volunteers and assigned to work alongside someone who knows the ropes — at least in the beginning. Also schedule on- and off-site social activities so volunteers can get to know one another outside "work" hours.

What are they thinking?

Volunteer surveys address volunteer satisfaction and can help you to isolate potential problems that may cause attrition. They also can measure the impact of volunteers on your organization and the community it serves.

Consider including questions such as "What feedback have you received from clients and other stakeholders about the value of your work?" and "What can we do to help you be a more impactful volunteer?" Help your volunteers tell their own stories. ■

Shooting for consistency

New rules clarify accounting for grants and contributions

When the Financial Accounting Standards Board (FASB) released new rules for revenue recognition in 2014, contributions were specifically excluded. Now the FASB is offering further guidance in its Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.*

The new rules likely will result in more grants and similar contracts being accounted for as contributions than have been under current Generally Accepted Accounting Principles (GAAP). So, if you haven't learned the new rules yet, now is the time!

What prompted the new rules?

The new rules reflect the FASB's stance that nonprofits have taken inconsistent approaches when characterizing some grants and contracts as exchange transactions (reciprocal) rather than contributions (nonreciprocal transactions). And organizations also have acted inconsistently when distinguishing between conditional and unconditional contributions, according to the standard-setting agency. For example, some nonprofits account for government grants as contributions while other organizations account for them as exchange transactions.

These issues came into the spotlight in the wake of the FASB's new revenue recognition standard. Contributions generally are reported in the period the pledge or commitment to donate the funds is received. But exchange transactions will be subject to the revenue recognition rules, including robust disclosure requirements.

Is it a contribution?

When characterizing a grant or similar contract, a nonprofit must evaluate whether the "provider" (the grantor or other party to a contract) receives commensurate value in return for the assets transferred. If so, the transaction is an *exchange transaction*.

The ASU makes clear that "the provider" isn't synonymous with the general public. Thus, indirect benefit to the public because of the asset transfer doesn't constitute "commensurate value received." Execution of the provider's mission or the positive sentiment from acting as a donor also doesn't equate to commensurate value received.

If the provider doesn't receive commensurate value, the nonprofit must then determine if the asset transfer represents a payment from a third party for an existing transaction between the nonprofit and an identified customer (for example, Medicare or a Pell Grant). If so, the transaction isn't a contribution and other accounting guidance would apply. If not, it's a *contribution*.

Guidance expands accounting policy election

The new FASB guidance on grants and contributions also modifies the simultaneous release option currently included in Generally Accepted Accounting Principles.

The current option allows a nonprofit to adopt an accounting policy that recognizes an unconditional donor-restricted contribution directly in "net assets without donor restrictions" if the restriction is met in the same period that revenue is recognized. The organization also must have a similar policy for reporting investment gains and income.

Nonprofits may now make this election for all donor-restricted contributions initially classified as conditional — where the condition has been met — without needing to elect it for all other restricted contributions and investment gains and income. In other words, a nonprofit can elect the simultaneous release option for conditional restricted contributions separately from unconditional restricted contributions. The only requirements are that the organization report consistently from period to period and disclose its accounting policy.

Is it conditional?

Whether a contribution is conditional affects when the revenue is recognized. This ASU explains that a conditional contribution comes with 1) a barrier the nonprofit must overcome to receive the contribution, and 2) either a right of return of assets transferred or a right of release of the promisor's obligation to transfer assets if the condition is not met. An unconditional contribution is recognized when promised or received. However, a conditional contribution isn't recognized until the barriers to entitlement are overcome.

To assess whether the nonprofit must overcome a barrier to receive the contribution, it should consider the following indicators:

- The inclusion of a measurable performance-related barrier or other measurable barrier (for example, raising a certain amount of matching funds),
- Limits on the nonprofit's discretion over how to conduct an activity (for instance, a requirement to hire specific individuals to run a new program), and
- A stipulation that relates to the purpose of the agreement (excluding administrative tasks and trivial stipulations, such as producing an annual report).

Depending on the circumstances, some indicators might prove more important than others. No single indicator will determine the outcome.

Effective dates

The new rules impact agreements for most nonprofits who are resource recipients for annual reporting periods starting after December 15, 2018. For organizations who are resource providers the new rules apply one year later. Early adoption is permitted. Check with your financial advisor to determine the best course forward for your organization. ■

Chatbots can help you do more for less

The popularity of messaging apps like WhatsApp is spurring the growth of chatbots, and, slowly but surely, nonprofits are getting on board. Organizations are using chatbots — computer programs used to exchange messages that feel like conversations between people — in several areas, including donor queries, storytelling, data gathering, HR and community organizing.

For example, the World Food Program rolled out its "Food Bot" last year. The chatbot, which works on Facebook Messenger, helps the program monitor food insecurity in hard-to-reach places, as well as provide useful information to the affected communities. UNICEF's U-Report collects opinions and issues from young people on a range of topics. Working with government partners, it uses the feedback to shape policy. ■

Charity athletic events hit the wall

Some of the charity athletic events that have provided reliable financial support to many nonprofits for decades are running out of gas. According to Peer-to-Peer Professional Forum, which conducts an annual benchmark study, the 30 largest U.S. peer-to-peer fundraising campaigns saw a 6.7% drop in funds raised in 2017. Revenues for those campaigns have declined every year since peaking at $1.71 billion in 2012, falling to $1.45 billion in 2017. Nonprofit executives cite the difficulty of competing with so many similar events.

Some organizations are trying to make their existing events — whether running, cycling, walking, dancing or other — more focused and efficient. Others are launching new, more customized programs to appeal to supporters' evolving interests. Experts also suggest organizations adjust to a shorter "life cycle" for events — expecting them to run, say, five years rather than 20. ■

Amazon enables "voice donations"

"Alexa, make a donation to … ." Amazon has rolled out a new feature in its popular virtual voice assistant. The app lets users verbally direct a donation to nearly 50 nonprofits using the credit cards linked to their accounts.

Amazon collects a 2.2% processing fee for domestic transactions, along with a $0.30 authorization fee. Organizations also can add a "Donate with Amazon" button to their websites to allow donors to use their Amazon accounts for contributions. ■

Facebook offers Workplace platform to organizations for free

Facebook is now making its popular Workplace available to nonprofit staff and volunteers at no charge. Workplace is a chat and communication platform that looks just like Facebook, with the same ability to post status updates, create groups, read and like updates in a News Feed, share photos and live video and deliver real-time translation. Employees unfamiliar with workplace apps like Slack and Hangout Chats, but who use Facebook, may adapt to Workplace more easily. More than 2,000 nonprofits already use the platform. ■

The support you need. The service you're looking for.

Succeeding in the not-for-profit sector today requires more than a strong commitment to your mission. It takes shrewd fiscal management, careful regulatory compliance, skillful use of technology and the assistance of advisors who know the issues nonprofit organizations face and how to address them.

This is where Sechler Morgan CPAs, PLLC comes in. Our team of experienced professionals cherishes the opportunity to support nonprofit organizations, meet their management challenges and fulfill their missions. We offer a variety of specialized accounting, tax and consulting services including:

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- Budget and policy design
- Outsourced accounting/bookkeeping
- Tax form preparation (990, etc.)
- Strategic and management consulting
- Speaking on financial literacy and other topics
- Technology and virtual system design

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We welcome the opportunity to discuss your mission and vision so that we may assist you with our expertise. Please call us at 602-230-2700 or e-mail info@azcpa.com and let us know how we may support you. Be sure to visit our website at www.azcpa.com for additional tools and information, as well as our archive of this newsletter.

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