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News for Nonprofits

NONPROFIT AGENDAS

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The CARES Act: What's in it for nonprofits?

When Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act in late March, much attention was paid to Economic Impact Payments for individuals and various types of assistance for businesses. But the 880-page law also contains some assistance that could prove critical to nonprofits as they struggle to deal with the financial impact of the novel coronavirus (COVID-19) pandemic.

Paycheck Protection Program

Charitable and veterans nonprofits (501(c)(3) and 501(c)(19) organizations) with 500 or fewer employees are among the organizations that qualify for the Paycheck Protection Program (PPP) through the Small Business Administration (SBA). The SBA is waiving its normal requirements, and the two-year, low-interest loans are subject to 100% forgiveness if certain requirements are met. These funds must be used for payroll and other specified expenses.

The program was set up on a "first-come, first-served basis," and the first round of funding was claimed in less than two weeks. On April 24, President Trump signed legislation that provides $310 billion in additional funding. That includes $60 billion designated for smaller lenders, such as community banks and credit unions, with the aim of helping smaller organizations without existing relationships with big banks. But it's still possible the program could be out of money by the time you're reading this.

Low-interest loans

The CARES Act also expands the existing SBA Economic Injury Disaster Loan (EIDL) program to give certain small businesses an immediate $10,000 advance upon applying for the EIDL loan. If the loan application is denied, the applicant keeps the advance as a grant. The SBA has simplified the application process and relaxed credit standards.

The program also is available to "private nonprofit organizations," including 501(c)(3) groups, trade associations, advocacy organizations, unions, social clubs and faith-based organizations. You can use EIDL funds for paid sick leave, payroll, mortgage, rent and other debts, and increased costs due to disrupted supply chains.

Unlike PPP loans, these loans must be repaid. The interest rate for nonprofits is 2.75%, and you may be eligible to receive as much as $2 million. Repayment periods up to 30 years are determined on a case-by-case basis. Payments are automatically deferred for one year on COVID-19-related loans.

Like the PPP, the EIDL program quickly ran out of money and was bolstered by the CARES Act amendments, which added $50 billion in loans and $10 billion in grants. This program may also be out of money by the time you're reading this.

The CARES Act also creates an Industry Stabilization Fund to provide direct loans to organizations, including qualifying nonprofits, with between 500 and 10,000 employees. It mandates an interest rate of no more than 2%, with no interest accrual or repayments for the first six months. Recipients must retain or rehire at least 90% of their workforce at full compensation and benefits.

Retention tax credits

To help employers keep their workforces intact, the CARES Act establishes a new refundable credit against payroll tax. The credit is available to employers whose:

- Operations were fully or partially suspended due to a COVID-19-related governmental shutdown order, or
- Gross receipts fell more than 50% compared to the same quarter in the previous year.

Employers, including 501(c) organizations with more than 100 employees, are eligible for the credit for employees not providing services (or whose hours have been reduced) because of the aforementioned suspension of operations or reduction in gross receipts. Those with 100 or fewer employees can qualify for the credit whether or not employees are providing services.

The credit equals 50% of up to $10,000 in compensation — including health care benefits — paid to an eligible employee from March 13, 2020, through Dec. 31, 2020. Note that employers that receive a PPP loan aren't eligible for the retention tax credit, and other rules and limits apply.

Payroll tax and unemployment benefit relief

The CARES Act permits you to delay your payment of the employer share (6.2% of wages up to the annual wage limit) of the Social Security payroll tax, so long as you haven't had debt forgiven through the PPP. You can pay the tax over the next two years, with the first half due by Dec. 31, 2021, and the second half due by Dec. 31, 2022.

Certain nonprofits will receive reimbursement for 50% of the costs incurred from March 13, 2020, through Dec. 31, 2020, to pay unemployment benefits. The benefit applies to organizations that reimburse their states for benefits paid to former employees, rather than pay unemployment taxes.

Reach out

All the programs described above come with pros, cons and requirements. And more programs may become available. Your CPA can help you evaluate your options. ■

Expanded tax deductions for charitable contributions

The Coronavirus Aid, Relief, and Economic Security (CARES) Act temporarily expands charitable contribution deductions.

Individual taxpayers can take advantage of a new $300 deduction for cash contributions to qualified charities in 2020. The deduction is "above-the-line," so taxpayers can claim it without having to itemize their deductions.

The CARES Act also loosens the limitation on charitable deductions for individuals' cash contributions made in 2020, boosting it from 60% to 100% of adjusted gross income.

The deduction limit for businesses rises from 10% to 25% of taxable income. The law also increases the limitation on deductions for contributions of food inventory from 15% to 25%.

Secure a corporate sponsor

These best practices could bolster your chances

Corporate giving has experienced solid growth in the last few years, according to recent editions of "Giving USA," an annual report on philanthropy from the Lilly Family School of Philanthropy at Indiana University-Purdue. Even with the economic uncertainty associated with the novel coronavirus (COVID-19), many corporations will be digging into their pockets for charities this year and beyond. In the current environment, competition is likely to be tougher than ever.

Here are some suggestions and best practices for pursuing corporate dollars.

Target companies associated with your mission

Unless you have unlimited development resources, you're probably better off focusing on companies with which you have an actual connection. Businesses like to partner with "natural fits" that share their goals, values and service areas — and they often choose a single theme or focus. For example, pharmaceutical giant Merck works with charities fighting to reduce maternal mortality around the world.

Organizations that enable a corporate donor's employees to get involved often have an advantage over nonprofits that don't. If the charity is a food bank, for example, it might target a company with a volunteering program and enlist its employees to stock its shelves.

Companies also may be receptive to charities whose mission matches that of key executives' personal interests. For instance, a company might donate to and raise money for a cancer charity if the child of a company executive suffers from a rare form of the disease.

Show off your fiscal responsibility

It's not enough, however, for your nonprofit to match the general interests of a company or its CEO. You also need to make a clear, compelling case that their corporate dollars will be well spent. Companies want to align themselves with fiscally responsible organizations that can prove they get results. They're likely to ask such questions as: Is your organization self-sustaining? What kind of outcomes does it achieve? Are the outcomes measured in both qualitative and quantitative ways? How much do you spend on programs vs. administration and other costs? What other forms of financial support do you receive?

Although most businesses understand the PR value of donating to or partnering with a charity, it doesn't hurt to remind them of the benefits — for instance, community goodwill, increased name recognition, tax breaks and improved recruiting. Emphasize that donations are investments and that the work that donations make possible is a corporate giver's return on the investment.

Accept support beyond dollars

When you approach potential corporate supporters, don't just ask for a check. Some businesses may not be in the position to give generously at this moment. Or they may be looking for a different kind of relationship with your charity. Instead, brainstorm ways your nonprofit and the business can work together for mutual benefit.

As mentioned earlier, some companies encourage their employees to contribute *volunteer time* to a nonprofit. Consider organizing a day of service with a company that enables the entire office to participate (and still get paid) while your nonprofit tackles a major project (such as repainting your facility). Or ask local employers to consider implementing a matching program that makes financial grants to the nonprofits where their employees contribute or volunteer.

You also might want to inquire about *donated services*. Most people are familiar with pro bono legal services, but other professional firms (accounting, PR, marketing, technology) also may be willing, even eager, to lend your nonprofit their expertise on a short- or long-term basis.

Consider asking for *gifts-in-kind*. Many manufacturers and retailers end up with excess inventory that could be donated — if only the businesses knew whom to give it to. Say you run a nonprofit clothing shop aimed at lower-income women re-entering the workforce. You could contact women's retail clothing stores to indicate your interest in unsold items from last season or pieces of clothing missing a button or two.

Will your approach be strategic?

Competition for corporate dollars is often stiff and likely may increase in the months ahead. Organizations with thoughtful strategies for securing corporate backing have the best chance at succeeding. ■

When it comes to embezzlement, your response matters

A quick Google search for the phrase "nonprofit embezzlement" turns up thousands of news stories about thefts, ranging from relatively small amounts to millions of dollars. Regardless of the size of the misappropriation, the way a victimized organization responds can make or break its reputation, fundraising results and, in turn, ability to pursue its mission.

Vulnerability

Of course, half the battle with some nonprofits is getting past the idea that they don't really need to worry about embezzlement. In reality, nonprofits often are particularly vulnerable to theft from within the ranks.

One reason is that they generally foster cultures of trust and rapport more than for-profit businesses do. This comfort level may lead to a disregard for internal controls ("we don't need them") and make it tough for colleagues to ask the difficult questions when red flags pop up. In addition, an organization's power frequently lies in the hands of a small group of people who can bypass or override any controls. High rates of turnover, a reliance on volunteers and limited resources also can make nonprofits susceptible to embezzlement and other kinds of fraud.

Moreover, the economic effects of the coronavirus (COVID-19) pandemic might lead an otherwise reliable employee, now financially injured, to resort to fraud.

Best course of action

So what should you do if you can confirm an embezzlement incident? A recent study published in the *Journal of Accounting, Ethics & Public Policy* looked at several options for repairing reputation and mitigating adverse financial effects after a major misappropriation. They include:

- Making a formal apology,
- Undergoing an external audit,
- Improving the board of directors' oversight function,
- Pursuing legal action against the guilty party,
- Improving internal controls, and
- Terminating the executive director.

It turns out that improving board oversight had the highest and *only* statistically significant positive effect on supporters' intentions to donate, planned donation amounts and an organization's perceived trustworthiness. The researchers call this measure "an ideal image repair strategy" because it comes at a relatively low cost. Termination of the executive director, by contrast, was judged inferior to many of the other strategies.

The study took several steps to signal improved board oversight to would-be donors. Donors were told, for example, that the organization is now requiring board members to be completely independent from management, so no employees can serve on the board.

Researchers also informed the study participants that the nonprofit increased the number of voting board members and mandated that at least one member has a financial or accounting background. Participants were further told that all board members must review the financial statements at least monthly.

Note: These steps elicited positive reactions from donors only because they knew of them. In other words, it's not enough to make such changes — you also must publicize them.

Reporting obligations

While prevention tactics and reputation repair are of utmost importance, they're not the only critical considerations. You must comply with federal and state reporting obligations, too.

Nonprofits are subject to several regulatory reporting requirements when misappropriation takes place. The IRS, for example, generally requires organizations to report any "significant diversion" of assets on Form 990. A significant diversion happens when the gross amount of all diversions discovered during the tax year exceeds the lesser of 1) 5% of gross receipts for the year, 2) 5% of total assets at year end or 3) $250,000.

Act now

Save your organization a lot of pain by thinking ahead about how you'd handle an embezzlement episode, rather than risking rash, heat-of-the-moment decisions. Better yet, help preempt such schemes altogether by tightening your internal controls and board oversight before something goes wrong. ■

NEWS FOR NONPROFITS

FASB tackles reporting gifts-in-kind

The Financial Accounting Standards Board (FASB) has issued a proposed Accounting Standards Update (ASU) on the reporting of contributed nonfinancial assets, or gifts-in-kind. The update would change only the presentation and disclosure, not the accounting, for these gifts. It would require nonprofits to present gifts-in-kind as a separate line item on their statements of activities, apart from contributions of cash and other financial assets.

The ASU would require organizations to disclose gifts-in-kind separated by category. Some examples: fixed assets; materials and supplies such as food, clothing or pharmaceuticals; and contributed services. For each category, a nonprofit would need to disclose: 1) intent for the gifts to be sold or otherwise generate revenue, or used in programs or other activities; 2) any donor restrictions on the gifts; and 3) valuation techniques and data used to compute the fair value amount reported. Additional disclosures would be required for donated services. ■

Survey reveals ups and downs of DAFs

Donor-advised funds (DAFs) have become a significant source of funding for some nonprofits. But their rise isn't all good news, as demonstrated by the results of a survey of more than 400 nonprofit CEOs conducted by the Center for Effective Philanthropy.

The top advantage, according to respondents, is that DAFs involve less of an administrative burden than some other gifts, allowing organizations to focus more on providing services. DAFs also make it easier for donors to give. The number-one disadvantage is the difficulty in forming personal relationships with the donors. The organization might not even know the name of the donor behind the DAF. The respondents also indicated that DAFs sometimes delay the receipt of donations because annual distributions aren't required by law. ■

Boosting support for foundation overhead

In 2016, five prominent foundations launched a collaborative effort to determine whether they were doing enough to help their grantees cover indirect costs. Now one of those foundations — the MacArthur Foundation — is changing its policy after finding that the essential costs necessary to operate the projects it supported weren't being covered.

Starting this year, the foundation is providing an indirect cost recovery of 29% of project costs on all new project grants, almost twice its previous rate. The figure is based on a study the foundation commissioned that found the minimum indirect cost rate associated with financially healthy organizations is 29%. The policy doesn't apply to general operating support grants, endowment grants, or grants to large, well-established organizations to support the general operations of a separately managed center. ■

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:

- Audit intermediary services
- 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

RESPONSIVE QUALITY

We are committed to providing responsive, personalized service to the highest quality. We take time to truly understand your Organization so that we can customize our recommendations to your specific situation. Our goal is to make your processes easier, streamline your operations and ensure your success in reaching *your* goals.

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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