Ready for the new gifts-in-kind reporting requirements?

Giving circles surge in popularity
What it means for nonprofits

Have a little faith
IRS and fraud concerns for faith-based nonprofits

News for Nonprofits

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NONPROFIT AGENDAS

SECHLER MORGAN
Certified Public Accountants, PLLC

info@azcpa.com
2418 W Barrow Drive, Chandler, AZ 85224
Tel: 602.230.2700/Fax: 602.230.2705
www.azcpa.com

Ready for the new gifts-in-kind reporting requirements?

The Financial Accounting Standards Board (FASB) has new rules for how nonprofits that follow Generally Accepted Accounting Principles (GAAP) must report and value "nonfinancial assistance" — commonly known as gifts in kind. The changes are effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. If your nonprofit didn't adopt the standards early, here's what you need to know.

First of their kind

The FASB issued Accounting Standard Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets,* in September 2020. It applies to any GAAP-adhering nonprofit that receives gifts in kind.

Common examples of gifts in kind include materials, supplies, food, clothing, contributed services, intangible assets, utilities or use of facilities, and fixed assets such as land, buildings and equipment. Many organizations already relied heavily on such donations when the FASB issued the ASU. Since then, circumstances have forced some nonprofits that previously avoided gifts in kind to accept them.

Except for contributed services (which are covered by the revenue recognition rules), the FASB hasn't had specific requirements for the reporting of such donations on financial statements or as disclosures. The new rules are intended to provide financial statement users, such as governmental bodies, grant makers and donors, with clear information on the extent to which an organization relies on gifts in kind and how it uses such gifts.

The ASU is relatively short compared with other FASB guidance, but the changes it incorporates could prove significant for some nonprofits. Note, though, that it doesn't alter the existing requirements for recognizing and measuring gifts in kind. The ASU includes only new presentation and disclosure requirements.

Nonprofit organizations will need to monitor and track gifts in kind by asset category, while also noting any donor-imposed restrictions.

Expanded information

Under the ASU, your nonprofit must present gifts in kind as a separate line item in the statement of activities, broken out from contributions of cash or other financial assets. In addition, gifts in kind must be reported by category of asset (for example, food, equipment and pharmaceuticals).

For each category of gifts in kind, your organization must disclose:

- Information about whether the gifts were either monetized (for example, by selling them) or used during the reporting period. If they were used, the disclosure must include a description of the programs or other activities for which they were used.
- Its policy (if any) for monetizing rather than using gifts in kind.
- Any donor-imposed restrictions associated with the gifts in kind.
- The valuation techniques and data used to arrive at a measure of value for the gifts.

In some cases, you also may need to disclose the principal market or most advantageous market that was used to determine value. This information is required if it's a market where a donor-imposed restriction prohibits your organization from selling or using the gifts in kind.

The ASU defines the principal market as the market with the highest volume of sales activity for the donated asset. The most advantageous market generally is the market that maximizes the amount the nonprofit would receive if the gift were sold.

Steps to compliance

Nonprofits that accept gifts should ensure they have the necessary information on hand to comply with ASU 2020-07. If your organization presents comparative financial statements, you should remember to make the requisite presentation and disclosures for the prior comparative year.

You may need to develop new processes and controls for collecting data on gifts in kind. This includes monitoring and tracking these gifts by asset category, while also noting any donor-imposed restrictions. Also, maintain detailed records of your nonprofit's valuation techniques and calculations.

Act now

Some nonprofits paid little attention to the ASU when it was first released — whether because the effective date seemed far off or they didn't accept gifts in kind. The requirements are kicking in, though, and it's time to take the necessary steps to meet the FASB's expectations. ●

THE IMPETUS FOR THE NEW REQUIREMENTS

According to the Financial Accounting Standards Board, it recently issued the new requirements for reporting gifts in kind (see main article) in response to stakeholder concerns. Some stakeholders, for example, were worried about the lack of transparency surrounding gifts in kind, specifically the amount received and used in nonprofit programs and activities.

Other stakeholders expressed concerns about the clarity — or lack thereof — of certain aspects of the existing guidance for valuing gifts in kind. Specifically, they noted that some nonprofits have applied U.S. wholesale market prices when determining the value of donated pharmaceuticals that can't legally be sold in the United States (when, for example, such items are donated for use outside the country).

Inflating those values could distort an organization's revenue and program expense, making them appear higher than they are. This could result in the organization appearing larger and more efficient than smaller nonprofits or ones that use lower values for gifts in kind.

Giving circles surge in popularity

What it means for nonprofits

According to the Dorothy A. Johnson Center for Philanthropy, giving circles have tripled in number since 2007, to about 1,600 groups with more than 46,000 members in the United States. With almost $1.3 billion in grants already made by giving circles, your nonprofit should ensure it's on the circles' radar.

Small groups, big impact

Giving circles sometimes are confused with crowdsourcing, where the number of donors can run as high as thousands of people. Giving circles, on the other hand, generally gather small groups of people to make an impact by pooling their money to donate to a cause or organization — generally more than they could give individually. Members of a giving circle might donate their time, too, whether as volunteers or as activists, or both.

Circles can represent groups of friends, neighbors, family members, coworkers or people with no other connection outside of the group. Regardless of who's involved, a hallmark of giving circles is that they conduct research on potential causes and grantees and make a collective decision about what and whom to support. Immediacy of action is another common characteristic. In contrast to donor-advised funds (another giving vehicle that has surged in recent years), giving circle funds are unlikely to sit undistributed for long periods of time.

Some giving circles also are supported by community foundations. The foundations offer services to donors who want to establish charitable funds without assuming the administrative and legal costs typically associated with launching independent foundations.

Potential benefits

Researchers have found that membership in giving circles tends to produce donors who give greater amounts and to a wider variety of organizations. They've also learned that giving circle members donate both to people like themselves *and* to those who aren't like them. The breadth of giving means more nonprofits receive support. That includes organizations that usually don't receive much, or any, government or foundation support. As noted, those members often will take on more active roles, which is invaluable for smaller organizations with limited resources.

In addition, giving circle funding can jumpstart a new project or program. Seeing immediate results provides a positive experience for the givers that encourages further activity. And getting more people into giving is always good, especially when they start at a younger age. These givers have the potential to become some of the most loyal supporters and passionate ambassadors that an organization has.

Signs of success

For confirmation that giving circles have become popular with donors, look no further than Charity

Navigator. The popular nonprofit watchdog group is now hosting a directory of giving circles on its website. The Global Giving Circle Directory compiles information on more than 2,500 donor groups, supporting a wide range of causes. In partnership with Grapevine and Philanthropy Together, the aim is to expand the number of giving circle participants to 350,000 people and increase contributions by another $1 billion to causes worldwide.

The latest version of the searchable directory was released in April 2021. It includes each group's size, location and areas of interest. The directory also reports the amount a circle collects, the amount members are expected to contribute and nonprofits that have received funds from the circle. Although the directory is intended for individuals looking for giving circles to join, your nonprofit can use the information to connect with groups that share its mission.

Check it out

Connecting with giving circles could provide your organization with substantial financial resources. Diversifying your revenues is always important, but never more so than now, when much of the nonprofit landscape is changing.

Have a little faith

IRS and fraud concerns for faith-based nonprofits

Religious congregations must comply with IRS rules and federal and state laws. But because they don't have to file income tax returns, some fail to engage independent financial experts. Without that oversight, congregation leaders may not know all the requirements to which they're subject and internal controls could be lacking. This leaves them vulnerable to fraud and subject to liabilities. Let's look at some financial best practices for any church, synagogue, mosque or other religious congregation to help prevent financial and other critical mistakes.

Classifying and paying employees

Proper employee classification has been on the IRS's radar screen in recent years. Your congregation must determine which of your workers are employees and which are independent contractors. Depending on many factors — for example, their responsibilities, work location and form of compensation — you may need to reclassify individuals you consider independent contractors as employees. For most non-clergy employee wages, you must withhold Social Security and Medicare taxes.

When it comes to clergy wages, most congregations treat clergy as employees and provide W-2 forms. Generally, you're not required to withhold Social Security, Medicare and federal withholding taxes. However, clergy are subject to self-employment tax on wages and must pay federal income tax on their earnings. A parsonage (or housing) allowance can reduce income tax, but not self-employment tax.

Engaging in taxable activities

Like other nonprofits, your congregation needs to pay close attention to unrelated business taxable income (UBTI). If your organization regularly engages in any type of business activity that's unrelated to its religious mission, be aware of certain tax and reporting rules. For example, do you sell items from a bookstore attached to your place of worship? Such income could be considered UBTI. Some fringe benefits are also considered taxable.

Traditional bingo games and gaming such as raffles and casino nights that are run by all-volunteer labor, or are not regularly carried on, have been granted a specific exception from income tax (although other IRS reporting may be required). A Form 990-T filing is required only if gross revenue from unrelated business activities exceeds $1,000.

In addition, your organization shouldn't devote a substantial part of its activities attempting to influence legislation (otherwise known as lobbying). If you do so, you could risk your congregation's tax-exempt status and face potential penalties. Of course, terms like "substantial" and "attempting to influence" are open to interpretation. But specifically endorsing candidates, supporting candidates for office financially or sponsoring events that might be interpreted as partisan is strictly prohibited.

Maintaining effective internal controls

All organizations, including religious congregations, need strong internal controls. Faith groups are particularly vulnerable to fraud because they generally foster an environment of trust. Keep in mind that even the most devout and long-standing members of your congregation are capable of embezzlement when faced with extreme circumstances, such as bankruptcy or gambling problems.

Pay special attention to collections. To ensure employees and volunteers can't help themselves to cash and checks, require that at least two people count cash in a secure area and verify the contents of offering envelopes. Then, they should document their results in a signed report. For even greater security, encourage your members to make electronic payments or sign up for automatic bank account deductions.

Also, ensure authorized disbursements by requiring that a nonaccounting employee or trustee receive and review bank statements. All checks above a specified amount should require dual signatures.

Preventing fraud

Internal controls are key to preventing fraud in religious organizations, but a comprehensive risk-reduction program contains other elements as well. For example, always perform background and credit checks on employees and volunteers who'll be entrusted with financial matters. Additionally, maintain adequate insurance coverage to protect against possible loss. Review it regularly as your organization grows and your needs change.

Furthermore, your congregation should have an investment policy that describes procedures for handling donated stock and other securities. At least once a year, take an inventory of your congregation's securities, valuables and equipment.

Be proactive

While the percentage of religious nonprofits that are audited is low, you still need to follow all the rules and proactively protect your congregation. Contact us to review your financial practices and determine whether a full audit is needed.

News for Nonprofits

How federal legislation may affect DAF distribution timelines

A bipartisan group of legislators has introduced the Accelerating Charitable Efforts (ACE) Act in the U.S. House of Representatives. The ACE Act mirrors a bill introduced in the Senate in June 2021. It would create two new types of donor-advised funds (DAFs) — 15-year (or qualified) and 50-year (nonqualified) — with the timing and availability of various tax benefits hinging on how quickly the funds are distributed after donation.

The ACE Act would allow a donor to hold up to $1 million in DAF funds at any community foundation without being subject to payout rules. For amounts over $1 million, a donor could receive upfront tax benefits if the DAF requires a 5% annual payout or if donations must be distributed within 15 years of contribution. The bill also would reform rules for private foundations. ●

Better understanding donor motivations and expectations

Several new research reports released simultaneously by the Indiana University Lilly Family School of Philanthropy stress the need for fundraisers to demonstrate impact and cultivate empathic responses from donors — without making them feel guilty. The reports reflect the results of donor focus groups, a donor survey and a donor engagement experiment, all part of the school's research project report series *The Giving Environment.*

The findings make "unmistakably clear" that donors want to understand the impact of their gifts but also value those organizations that foster meaningful relationships with them. Their expectations for how organizations build connections with them and communicate impact has intensified. The most effective fundraising messaging will highlight needs while also evoking a positive sense of connection. Of the various channels researched, video messages scored the highest connection rates with recipients. ●

Foundations expect to continue some pandemic practices

A study from the Center for Effective Philanthropy (CEP) suggests that COVID-19 may have accomplished what years of calls for change couldn't: convincing foundations they should adjust some of their long-standing practices. As part of the "Foundations Respond to Crisis: Lasting Change?" study, CEP collected survey responses from 284 foundation leaders and conducted in-depth interviews with 33 foundations and 32 nonprofit organizations.

Among other things, foundation leaders signaled that, post-pandemic, they plan to continue to reduce administrative burdens for grantees, such as grant application and reporting requirements. They'll also increase unrestricted funding and pursue efforts to advance racial equality. Most foundation leaders say that racial equity is a more explicit consideration in how they do their work and, as a result, many are modifying their practices (for example, changing how they identify applicants and funding more organizations supporting black and Latino communities). ●

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.

SECHLER MORGAN CPAs, PLLC

2418 W Barrow Drive
Chandler, AZ 85224
www.azcpa.com