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Nonprofit Insights

A Newsletter for Nonprofit Decision Makers

Summer 2017

Prepare for the Inevitable

Understand Conflicts of Interest Before They Happen

The fact is, there's the potential for conflicts of interest within nonprofit organizations. This should be neither alarming nor suspect — every nonprofit can expect to encounter these situations in the natural course of carrying out its mission.

When problems arise, it's usually due to missteps in handling the conflict. This makes creating a proactive process to recognize and resolve such potential conflicts critical to safeguarding your nonprofit's finances, goals and reputation.

A Definition and Examples

The standard definition of conflicting interests is expressed clearly by the Foundation Group: "a transaction or arrangement that might benefit the private interest of an officer, board member or employee."

A hospital board member whose company sells hospital supplies has two different interests: the hospital's success and a private company's profits. A less-than-diligent board might find itself purchasing that company's products at inflated prices.

A board president for a symphony that is considering hiring her husband also has a potential conflict. Who'll decide on the hire and set the salary? It would be hard for the president to participate in such decisions objectively.

Not an Automatic Problem

These situations can be managed fairly, but it's important to note that mere potential does not necessarily imply impropriety. Some combinations can make perfect sense and deliver tangible benefits to a nonprofit.

The leader of a company known for leadership in infection-reduction science, for example, might be a great addition to a hospital board – especially if the company offers its sanitation and hygiene products to the hospital at solid discounts. And the symphony president's husband may be the best fundraiser in town.

But not all potential conflicts are so apparent. And not all involve financial gain — sometimes it's a matter of conflicting allegiances. For example, a highly qualified academic might be invited to sit on two boards with similar missions but vastly unequal assets. If he has a wealthy friend ready to donate, what advice should he offer?

Or consider a preschool board, where the participation of parents is widely considered a best practice. When the board considers dropping a little-used program, how will the board member whose child relies on it vote?

Unmanaged Conflicts Have Consequences

When a board permits a conflict, even one that's technically within the law, it should be prepared for press reports and government queries. These can easily cast shadows and raise doubts among constituents and donors.

Gone are the days when "nonprofit" conferred an automatic halo of trust. Many scandals have come to light recently in business, government and charitable organizations, so the public is more skeptical today. So are media and government agencies, including the IRS. These stakeholders may have different definitions of conflicting interests.

Put Safeguards in Place

If you understand that your nonprofit will face conflicts of interest, both self-evident and subtle, you can better plan for them. Being prepared involves a few key principles:

Define conflicts of interest. Insights and model definitions are readily available in government publications and the policies of other nonprofits.

Continued on page 3

Employee-Centered Giving

How to Harness Corporate Philanthropy Today

Corporate philanthropy is changing. Teams within companies that manage corporate giving are growing, and nearly a third report deepening engagement with top management. This reflects decisions by companies to incorporate philanthropy as a business priority.

Meanwhile, corporate boards are continuing their shift from direct grants to employee-linked giving. Rather than view a company as a one-stop-shop for big donations, nonprofits must orient their fundraising to the company's preferred methods of supporting its employees' charitable goals.

Corporate giving is also increasing, although it's still modest compared to gifts from individuals and foundations. But the glass is half-full for savvy nonprofits that approach corporate fundraising effectively. The advantages of doing so include increased contributions, more reliable long-term sources of funding and new openings to reach many more people.

Guiding Principles

To be successful, you need to proceed from two key principles about corporate giving.

The first is alignment, especially given today's demands for measurable results. Understanding which companies' values and goals fit with your nonprofit's mission is fundamental — failing to do so can have reputational consequences. A group fighting adolescent obesity, for example, might want to skip donations from a donut chain.

The second is focusing on small or local businesses in the beginning. These are typically more easily approachable than large corporations and generally more open to the case for community improvement. A review of your current donor list should turn up some likely opportunities along these lines.

How Corporations Give Today

The employee-centered giving model involves a range of programs, including the following:

Matching gifts. Many companies will match employee donations to any eligible nonprofit, up to a limit. Some will even double donations.

In-kind donations. These gifts of materials or services — think office space or computer supplies — can be ongoing. They're especially well-suited to big events, where they can offset costs significantly. Venue rental, food and refreshments, and entertainment are all valuable, as is the prestige that underwriting them brings a corporate sponsor.

Talent-based contributions. A form of in-kind donation, these contributions involve "lending" an employee to a nonprofit for a specified period of time. A week or more of help from a lawyer, accountant or IT specialist can have a major impact.

Fundraising matches. These continue to grow in popularity, especially for healthcare-related organizations. With these programs, a company co-sponsors an active event, like a walk-a-thon or fun run – usually matching not only contributions from employees, but also any raised from friends and family.

Volunteer grants. Companies link these grants to the time their employees spend volunteering. They usually require a minimum number of hours, and sometimes they allow the work to be performed on company time.

Related to these are a "day of service." Here, a company turns out as many employees as possible to help with a project — for example, a Saturday spent packing holiday packages for the needy — and supplements the work with a grant. Days of service come with a bonus of team-building morale.

Community and challenge grants. These are grants linked to specific community initiatives. Sometimes they're made dependent on the nonprofit meeting a challenge, like raising a specified amount of money.

Payroll deductions. This is an easy and largely painless way for employees to contribute automatically.

Employee fundraising. This usually takes place on a company's own initiative — the company sets up a fund over a defined period of time to benefit a cause. Learn which companies in your area do this and determine if your nonprofit is a logical recipient.

Annual stipends. Though less common, some companies earmark a specific amount of money for each employee to donate to a chosen organization.

Help Them Help You

Corporate fundraising poses some special challenges for nonprofits, such as measurement. A company that gives back to its community wants to be certain its generosity is having the desired impact. You must provide clear metrics about their work.

It's also important to create a smooth and easy process for employee-linked giving. Too many nonprofits take this for granted, assuming that donors will contact their employers and move the paperwork to obtain any available corporate matches.

A wiser course is to put this option front and center with volunteers and contributors, not only in communications but also with technology. A prominent button on every web page, for example, can let online donors check their own company's programs and make a matched donation in one seamless step.

If your nonprofit can get in front of the corporate shift to employee-centered giving programs, you can open new doors and increase your funding.

Our firm knows corporations and nonprofits. Contact us to talk about how to best harness the power of corporate giving.

Clarifying Donor Restrictions

New Reporting of Net Assets Starting Soon

New rules set to take effect for the fiscal year after Dec. 15, 2017 (with early adoption permitted) will change the way nonprofits report and describe their net assets. These changes will reduce the number of net asset classes from three to two and require separate subtotals for activities with and without donor restrictions.

Nonprofits today must report three kinds of net assets on their financial statements: unrestricted, temporarily restricted and permanently restricted. This requirement will be replaced by a new one in which organizations must present only two classes: net assets acquired with donor restrictions, and net assets acquired free of restrictions.

Donations received with restrictions usually limit their purpose and time frame. Financial statements must still offer such information, either on the face or in notes.

Endowment Funds

These may fall into either of the new classes. Donor-restricted endowment funds may seem self-explanatory, but a nonprofit must consider other factors as well, such as whether the fund is subject to trust or prudent-management laws.

On the other hand, boards may create "quasi-endowment funds" from unrestricted assets, usually for long-term investment. These also must be reported with information about any self-imposed limits on activities or timely use.

An underwater donor-restricted endowment fund is a fund whose fair value is less than the original donation, or less than the amount

that must be maintained either by donor or legal requirements. Nonprofits must report the deficiency amounts for all such funds.

Statement of Activities

Like the financial statement, your nonprofit's statement of activities must present the new classes of net assets, including:

- The total change in net assets for the period,
- The change in net assets without donor restrictions, and
- The change in net assets with donor restrictions.

Further, for the change in unrestricted net assets, the statement of activities must present two subtotals:

- A subtotal of operating revenues, support, expenses, gains, and losses before internal transfers; and
- A subtotal showing the effects of internal transfers.

Note that the new rules involve reporting, and they don't change the substantive factors nonprofits must consider in classifying their net assets. The standards are designed to reduce complexity, add clarity and improve understanding for all of your nonprofit's stakeholders, both internal and external.

Other scheduled FASB rules involve changes in how nonprofits report cash flow, resource liquidity, investments and expenses.

Understand Potential Conflicts of Interest

Continued from page 1

Establish a policy on member information. This should specify what facts board members must divulge about their financial holdings, other board memberships, and social and professional affiliations. Make the results available to the entire board, alerting members to specific potential conflicts and encouraging them to leverage their outside interests to the nonprofit's advantage.

Make disclosure normal and routine. An annual disclosure of potential conflicts should be pro-forma. But since situations arise during the year, it should also be standard practice to announce disclosures. For example: "I've taken a position on the board of XYZ organization. Its mission is significantly different from ours, and I don't expect it to compete, but the board should know."

Recuse members from deliberation and voting. When the board takes up a measure that poses a potential conflict of interest for one or more members, ask them to leave the room for the discussion and vote.

Solicit bids for goods and services. If a significant outlay will be needed, put the requirements out for written bids and assess the bids against each other. If a board member's company bids, this comparison can reveal any unduly high pricing and consequent financial benefit.

Train your people. A few classes on conflict of interest will help everyone, from the board on down, be alert to questionable actions. If a board member has an unsavory opportunity, it's better to learn about it in a note from a purchasing office than in the headlines.

If your nonprofit takes the time up front to prepare for conflicts of interest, you'll be able to manage them smoothly and transparently.

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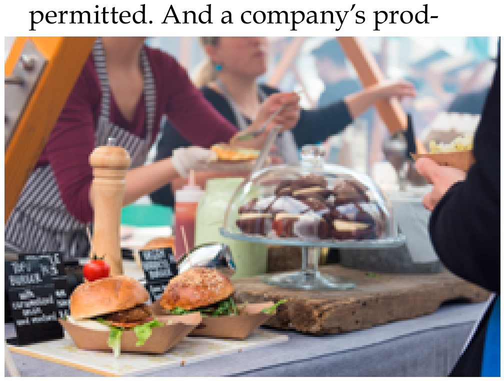
Sponsorship vs. Advertising: Know the Difference

Corporate philanthropy has a natural attraction to nonprofit events. Sponsorship reduces costs and increases revenue for the organization, while it rightfully casts the company in a socially responsible light.

But be forewarned: If corporate payments cross over from sponsorship to advertising – which the IRS classifies as unrelated business income – the nonprofit may be subject to a tax on them.

The IRS defines sponsorship as a donation "substantially related to the charitable, educational, or other purpose" that's the basis of the organization's tax exemption. Further, sponsorship involves financial support without significant financial return. Goodwill, brand enhancement and reputation are the goals.

You can certainly recognize an event's sponsors by listing them in your media and publications — company names and products, taglines, logos and contact information are all permitted. And a company's products can be displayed and even distributed at the event.



Advertising, on the other hand, takes place when your nonprofit promotes sponsors with endorsements; claims about quality, price, or value; or calls to buy their products or services.

Sometimes a company will forego sponsorship if its participation at an event stands to generate substantial profit. That's why food and beverage companies, so prominent at outdoor arts festivals, often aren't listed among the sponsors or partners of the event. And sometimes a company that sponsors an event will turn a profit there — and deduct its advertising revenue tax obligation from its sponsorship contribution.

The line is not always a bright one. Every sponsorship event is unique so you need to tread carefully about how you choose to recognize your sponsors.