July 31, 2018

Dear Nonprofit Executive:

Enclosed is our Summer 2018 issue of *Nonprofit Observer* which includes articles on how to secure corporate support, educating donors on what they can and cannot deduct, how to handle scandal related to a celebrity associated with your organization and employee retention in times of full employment. We hope these articles are of interest to you and your organization.

The Giving USA Annual Survey for 2018 was issued last month and it reported record results. U.S. charitable contributions during 2017 increased to $410 billion with practically all sectors seeing increases. Donations were fueled by record high equity markets, a robust economy, near full employment and rising compensation. The American Institute of CPA’s issues an "Accountant’s Confidence Index" and last week reported the index was also at record setting levels for these very same reasons. Hopefully your organization was (and is) a beneficiary of a part of this largess.

Tax laws and regulations continue to change and nonprofits are not being spared. Some of the changes are good, such as the elimination of the requirement for non-charitable organizations to disclose the names of large donors. Also, there is a proposal to allow donors who do not itemize deductions to claim charitable contributions of up to one third of the standard deduction threshold which would amount to $4,000 for single filers and $8,000 for married couples filing jointly. Another tax issue that has generated a lot of concern relates to the potential taxability as unrelated business income of the cost of providing parking to nonprofit employees. We are awaiting further clarification from the IRS on this issue, but recognize it is an issue that will need to be addressed before filing a tax return for a tax period that includes any part of 2018.

For 25 years, we have addressed developments and emerging issues such as these at our Tax Exempt Association ("TEA") Group monthly meetings. Recent TEA Group topics are listed on the following page. Planned topics for the next three months include:

- Implementing FASB’s new standard on revenue recognition
- The new rules for recognizing grants and restricted contributions
- Implementing the new standard on NFP Financial Statements

We encourage you to come to our TEA Group meetings to exchange ideas on these and other topics that are relevant to your organization. You may register to attend by calling our office or e-mailing your reservation to mca@joneskolb.com.

Jones and Kolb specializes in nonprofit organizations and can assist you in addressing many of these complicated issues. Our nonprofit team leaders include: Ann Thompson, Bliss Jones, Brian Muia, Colin Blalock and Laura Heller.
TAX EXEMPT ASSOCIATION (TEA) GROUP
DISCUSSION TOPICS

**2018**

**JUNE**
Highlights from National and State Nonprofit Conferences

**MAY**
Not-for-Profit Financial Statement Implementation Guide Tool Kit

**APRIL**
Telling Your Story Through Your Financial Statements, Tax Returns and Other Publications

**MARCH**
Philanthropic Disruptions

**FEBRUARY**
Employee Cyber Security Awareness Training

**JANUARY**
How the Tax Cuts and Jobs Act Will Impact Nonprofits

**2017**

**NOVEMBER**
Tax Rules for Deferred Compensation Plans, Executive Bonuses and Fringe Benefits

**OCTOBER**
Tackling the Top Complexities in NFP Accounting

**SEPTEMBER**
The Biggest Financial Issues Facing Today's Nonprofits

**AUGUST**
New Rules for Recognizing Government and Foundation Grants, and Restricted Contributions

**JULY**
Highlights from National and State Nonprofit Conferences

**JUNE**
Disaster Recovery Plans

**MAY**
The Most Common Errors on Form 990 and Ways to Attract the IRS Scrutiny

**APRIL**
How to Implement the New Revenue Recognition Accounting Standard

**MARCH**
Regulators and Watchdog Groups Are Bearing Down on Charities, What They Are Looking At?

**FEBRUARY**
The IRS Tax Exempt 2017 Work Plan and Changes to the Form 990

**JANUARY**
What Impact Will the Elections Have on Nonprofits?

**2016**

**NOVEMBER**
Sample Financial Statements that Incorporate New Required Disclosures

**OCTOBER**
Employment Tax Changes and Compliance for Charitable Organizations

**SEPTEMBER**
What Motivates Donors to Contribute and What Doesn't?

**AUGUST**
Accounting Update Including NFP Financial Reporting, Revenue Recognition and Leases

**JULY**
Highlights from National and State Nonprofit Conferences

**JUNE**
Preventing and Detecting Fraud in Nonprofits, Including Cyber Fraud

**MAY**
Key Performance Indicators That Really Perform

**APRIL**
Priorities for the IRS Exempt Organizations Division and New Tax Laws

**MARCH**
New Overtime Rules and Off-the-Clock, Comp and Travel Time Rules

**FEBRUARY**
Record Retention Policies and How to Store the Information

**JANUARY**
The New AICPA Not-for-Profit Section and the NFP Advisory Council

**2015**

**NOVEMBER**
Accounting Update and What is on the Horizon

**OCTOBER**
What Keeps NFP Management Awake at Night?

**SEPTEMBER**
Tax Red Flags and Myths

**AUGUST**
Model Accounting Policies and Procedures

**JULY**
The Many Hats of a Not-for-Profit CFO

**JUNE**
Highlights from the National and State Not-for-profit Conferences

**MAY**
Proposed Changes to Not-for-Profit Financial Reporting – You Get a Vote!

**APRIL**
If You Want to be Successful, Attention to Detail Matters

**MARCH**
Setting Criteria for Board Members

**FEBRUARY**
The Management of Investment Decisions - Building a Framework for Success

**JANUARY**
The Fraud-Resistant Organization: Tools and Techniques to Deter and Detect Fraud
How to secure lasting corporate support

Educating donors about what they can — and can’t — deduct

Nonprofits: You too could fall victim to a celebrity scandal

Employee retention
Keep them if you’ve got them
According to Giving USA, businesses donated $18.55 billion to charity in 2016 (the last full year of statistics available). Even if your organization already benefits from this largesse, you’d probably like to increase the amount you receive from companies and find additional ways to partner with the for-profit sector.

Increasing corporate commitment is similar to establishing relationships with individual donors, but there are important differences. While emotional factors generally drive individuals to support a charity, companies need both emotional and strategic rationalizations. Similarly, individuals tend to give even when their budgets are tight, but companies often reduce their philanthropic activity in periods of lower profits or economic turbulence. How then can you find corporate support that will last?

**Like-minded organizations**

Unless you have unlimited development resources, you’re probably better off focusing on companies with which you have a clear connection. Businesses like to partner with “natural fits” that share their goals, values, service areas and business strengths. 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. And as part of its commitment to boost economic activity, JPMorgan Chase pledged $100 million in 2014 to help revitalize the city of Detroit — help that included deploying its “service corps” of employees to lend a hand to local nonprofits.

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Indeed, organizations that enable a corporate donor’s employees to get involved often have an advantage. Private equity firm Blackstone’s charity of choice is food redistributor City Harvest. Blackstone employees volunteer to do everything from providing strategic advice to the organization to handing out fresh produce to New York City’s needy.

Companies may also be receptive to charities whose mission matches that of key executives’ personal interests. For instance, marketing company Inspira donates to and raises money for a pediatric cancer charity, Alex’s Lemonade Stand Foundation, because its founder’s own child suffers from a rare form of the disease.

**Proven management and results**

It’s not enough, however, for your nonprofit to match the general interests of a company or its CEO. You also need to be able to make a clear, compelling case that any 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 both qualitative and quantitative?
- 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 example, tax breaks, community goodwill, increased name recognition and improved hiring and employee retention. Emphasize that donations are investments and that the work that donations make possible is a corporate giver’s return on the investment.

Now more than ever

If you haven’t aggressively sought corporate support in the past, think about making a greater effort to connect with these donors. Business donations have always been a critical source of revenue for nonprofits, but tapping this resource may now be more important than ever. A higher federal income tax standard deduction means that many individuals will no longer be able to deduct their charitable gifts, and donations to nonprofits are expected to decline in 2018.

However, please note that legislation has been introduced in Congress that would allow taxpayers to deduct contributions even if they don’t itemize deductions. The proposed law would also eliminate the current caps on charitable contribution deductions. Please contact your tax advisor for information about the proposal and its current status.
E ducation may not officially be part of your nonprofit’s mission. But while working with donors, you’ve probably noticed that many are confused about the federal tax deductibility of their contributions. To help prevent unwelcome surprises when donors file their returns, inform them about the tax benefits of different types of donations.

**Cash, ordinary income and capital gains property**

Donors who itemize deductions generally can deduct contributions of money or property. For example, cash donations (including those made by check, credit card or payroll deduction) usually are 100% deductible. However, the value of any benefit (such as tickets, meals or merchandise) donors receive must be subtracted from the deductible amount.

The rules aren’t as simple for property. The deductibility of donations of *ordinary income property* generally is limited to the donor’s tax basis in the property — usually the amount the donor paid for it. Donors can deduct the property’s fair market value (FMV) less the amount that would be taxed as ordinary income or short-term capital gains (property sold within a year of acquisition) if they sold the property.

Donors of *capital gains property* usually can deduct its FMV. Property is considered capital gains property if the donor would have recognized long-term capital gains had he or she sold it at FMV on the donation date. This includes capital assets held more than one year. But there are certain situations where only the donor’s tax basis of the property may be deducted, as in the case of intellectual property.

**Tangible and other property types**

*Tangible personal property* can be seen or touched — for example, furniture, books and jewelry. If your nonprofit uses donated tangible personal property for its tax-exempt purpose (such as when a museum displays a donated historical artifact) the donor can deduct its FMV. But if the property is put to an unrelated use — for example, a college sells the artifact — the deduction is limited to the donor’s basis in the property.

Other common types of donations are:

**Vehicles.** Generally, if a vehicle has an FMV greater than $500, the donor can deduct the lesser of the gross proceeds from its sale by the organization or the FMV on the donation date. But if your nonprofit uses the vehicle to carry out its tax-exempt purpose — for example, a children’s sports league that uses a donated school bus to transport kids to games — the donor can deduct the FMV. Be sure to provide Form 1098-C to your donor to attach to his or her tax return.

**Property use.** Say a supporter donates a week’s stay at her condo in Hawaii for an auction. Unfortunately, she can’t take a deduction because
generally only donations of the full ownership interest in property are deductible. The right to use property is considered a contribution of less than the donor’s entire interest in the property. But there are some situations in which a donor can receive a deduction for a partial-interest donation, such as with a qualified conservation easement.

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Services. Donations of services — for example, when a personal trainer pledges a workout session as a raffle prize — aren’t deductible as contributions. However, any related out-of-pocket costs, such as supplies and miles driven for charitable purposes (14 cents per mile), are deductible.

Observing limits
Donors need to understand that there are additional limits on charitable deductions. Starting in 2018, a taxpayer’s total deduction can’t exceed 60% of his or her adjusted gross income (AGI). But donations of capital gains property generally are limited to 30% of AGI and contributions to some nonprofits, such as private foundations, have different limits.

Because the tax rules regarding charitable deductions can be nuanced, encourage supporters who are making large donations or contributing unusual gifts (such as conservation easements) to work with a tax advisor. Although you can provide general information about deductibility, you don’t want to anger donors or risk your nonprofit’s reputation by potentially giving advice that turns out not to be true. To be safe, include a disclaimer in any donation materials stating that tax treatment information shouldn’t be taken as advice for particular situations.

Nonprofits: You too could fall victim to a celebrity scandal

Celebrities — whether they’re Hollywood stars, hometown sports heroes or local TV news anchors — can provide a big boost to the charities they publicly support. A celebrity can help raise awareness of your mission, attract new audiences, generate donations and change public opinion on an issue.

The flip side is that stars can also harm an organization by association. Accusations connected with the #MeToo movement have recently brought down many famous people and, in some cases, caused major headaches for the charities they’ve supported.

Collateral damage
In one of the more extreme examples, an arts foundation established by an award-winning actor was shuttered earlier this year after several people
accused him of sexual misconduct. But even charities whose ties to disgraced celebrities are more tenuous have experienced decreased donations and loss of public support. Of course, the risk of becoming collateral damage isn’t new. Long before #MeToo, charities grappled with such PR challenges as board members arrested for drunk driving and major donors indicted for embezzlement.

If you’re caught off guard in one of these scenarios, the first general rule is to act fast. A quick initial response should, if nothing else, acknowledge the reports, express concern and make your nonprofit’s relationship with the accused individual clear. Follow up regularly as new details and developments emerge. It’s important to remember that whether those associated with your nonprofit are actually guilty of a crime, ethical violation or bad behavior matters little in the court of public opinion. To protect your reputation, you need to create distance between your organization and the accused.

The risk of becoming collateral damage isn’t new. Charities grappled with PR challenges long before #MeToo.

What you can control
But don’t wait for your nonprofit to make headlines for all the wrong reasons. Take these steps before a PR disaster to minimize the damage to your organization’s reputation:

1. If you’re considering partnering with a celebrity, thoroughly research his or her reputation, background, work and previous charitable commitments to help ensure they’re consistent with your own organization’s mission and values.

2. Work with your attorney to craft a “moral clause” to be included in contracts with spokespersons. The clause should specify triggering events (for example, an arrest, a social media feud or even negative publicity) and authorize your organization to terminate the agreement with little or no notice.

3. Create a PR crisis plan. Decide who will speak for your nonprofit, roughly what they’ll say and what forms of media (for example, press releases or press conferences) they’ll use. Make sure support players — such as legal counsel and external PR consultants — will be available should you need them. And board members need to be prepared for emergency meetings and votes.

4. Even if your executive director is your organization’s official voice, employees and volunteers need to understand their roles in a PR crisis. This starts well before there’s an emergency. Establish policies and procedures for communicating with the public, particularly online.

5. Get to know your local media when you have good news to share. If local reporters are already familiar with your organization and its leaders, they’re more likely to give you the benefit of the doubt and provide sympathetic coverage if the news is negative.

Best possible action
Public perceptions are difficult to influence at the best of times. But if your nonprofit finds itself at the center of a PR crisis through no fault of its own, the worst possible action is to take none.
Employee retention
Keep them if you’ve got them

In April, the U.S. unemployment rate fell to 3.9%, its lowest point since December 2000. That’s great for the economy — but not so great for organizations struggling to remain fully staffed. Unfortunately, many nonprofits are in this position. They can’t afford to pay employees as much as their for-profit counterparts and, thus, have a harder time recruiting and retaining people when the labor market’s tight.

Nonprofits aren’t powerless, though. If you currently have good people on the payroll, there are steps you can take to keep them. Consider these low-cost retention tools:

**Work perks.** Raises and robust benefits are the traditional routes to retaining employees, but there are other ways you can let employees know you value them. For example, research has found that a majority of workers crave greater control over when and where they work — whether that means a flexible or part-time schedule, the option to telecommute or more vacation time. Unlike health insurance and retirement savings benefits, these work perks tend to be relatively cheap and may (in the case of telecommuting) save your organization money.

**Career development.** All the money in the world won’t keep an ambitious employee in a dead-end job. Learn what your nonprofit’s employees hope to get out of their positions (besides money) and where they’d like to be in five, 10 or 20 years. Then provide them with a clear career path that rewards their accomplishments with greater responsibility and authority. Also make sure they have opportunities to learn new skills. If your budget allows it, you might reimburse staffers for taking job-related classes or attending professional seminars.

**Acknowledgment and thanks.** Many staffers simply want their work to be recognized. Praise good work at staff meetings and publicize achievements on your website or in your nonprofit’s newsletter. And the next time an employee does something special, write a “thank you” note. Another gesture that’s likely to be appreciated: Reward the staffer with an afternoon off or even an extra personal day.

Finally, don’t underestimate the power of a positive workplace. Employees who like coming to work and enjoy the company of their co-workers, supervisors and clients are much less likely to look for a new job. Make sure everyone complies with anti-harassment and antidiscrimination laws as well as your own “house rules” governing conduct. If you receive complaints from workers about ill treatment, take them seriously and investigate. Failure to do so could result in the loss of a staffer — or worse.
Yes, you can have your lunch — and learn too
At the Jones and Kolb monthly Tax Exempt Association (TEA) Group luncheon

Don’t miss these highly popular and informative presentations on solutions to the many challenges facing nonprofit organizations. You’ll not only pick up helpful ideas about ways to increase your organization’s efficiency and effectiveness, you’ll also get to network with your peers and learn what others are doing to address problems you may be struggling with yourself.

At each luncheon, a Jones and Kolb shareholder or a distinguished guest speaker will talk about current issues of relevance to the nonprofit community and suggest ways to address them. There will also be time for questions, answers and discussion.

To sign up, go to www.joneskolb.com or call our office at 404.262.7920. To whet your appetite, here are some of the topics the luncheons have covered over the past year:

♦ Record Retention Policies – What Information and How You Need to Keep It
♦ AICPA Not-for-Profit Section Resources and the NFP Advisory Council
♦ What Keeps NFP Management Awake at Night?
♦ Tax Red Flags and Myths
♦ The Many Hats of a Nonprofit CFO
♦ Proposed Changes to Nonprofit Financial Reporting – You Get a Vote!
♦ If You Want to be Successful, Attention to Detail Matters
♦ Setting Criteria for Board Members
♦ The Management of Investment Decisions – Building a Framework for Success
♦ The Fraud-Resistant Organization: Tools and Techniques to Deter and Detect Fraud
♦ Cyber Crime – What Can You Do to Protect Yourself and Your Organization?
♦ NPO Board Priorities and Best Governance Practices
♦ Balancing Brevity, Understandability and Completeness of Financial Statements

Since our founding in 1976, Jones and Kolb has strived to be positive, practical and proactive in serving our clients’ needs. This philosophy has enabled us to develop extensive specialization in serving nonprofit organizations and has made us one of Atlanta’s Top CPA firms.

In addition to providing outstanding audit, accounting, tax and consulting services, we excel in developing solutions that address tough and unusual issues. For example, we have helped clients increase revenue and membership, create deferred compensation programs, set up foundations and account for qualified corporate sponsorships, payments and advertising.

We welcome you to experience the TEA Group and talk with your peers over lunch. We also invite you to sign up for our complimentary quarterly newsletter, Nonprofit Observer. Please call us at 404.262.7920 or e-mail info@joneskolb.com and let us know how we can be of assistance.

ACCOUNTING
GAAP and A-133 Audits
Employee Benefit Plan Audits
Compilation and Reviews
Internal Controls
Accounting for Endowments
Accounting Systems

TAXATION
Form 990 Disclosures
IRS Examinations
Lobbying Expenses
Charitable Giving Compliance
Independent Contractor Issues
Unrelated Business Income
Qualified Corporate Sponsorships

CONSULTING
Executive Compensation
Board Orientations
Investment Policies
Staffing of Financial Positions
Subsidiary Organizations
Surveys of Members