Jones and Kolb
Certified Public Accountants

October 26, 2018

Dear Nonprofit Executive:

Enclosed is our Fall 2018 issue of ***Nonprofit Observer*** which includes articles on how to minimize the impact of certain provisions of The Tax Cuts and Jobs Act ("TCJA") on charitable giving to your organization, clarification on income recognition for contributions and grants, differences in accounting between for-profit and nonprofit organizations and building an effective audit committee. We hope these articles are of interest to you and your organization.

Given that none of us won the record setting Mega Millions lottery, it is time to get back to reality. For organizations with December 31st year ends, you may be striving to meet revenue projections while massaging numbers in an effort to balance the next year's budget. We are all waiting to see what impact last year's tax reform will have on charitable giving. While the economy has been strong in most sectors, the stock markets continue to be volatile, which creates an air of uncertainty. And, state and national elections are coming up that could entirely change our political direction. Given all these parameters, it is difficult come up with a game plan for the coming year.

What you can be certain of this that change is constant and challenging. One must adapt to existing conditions to succeed. You may start out with a business plan based on the status quo, but you need to have a Plan B in your back pocket to respond to significant changes, should the need arise.

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 the new standard on nonprofit financial statements
- Record retention in the digital age
- Update on tax issues impacting nonprofits from the 2017 TCJA

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

SEPTEMBER	Clarifying the Accounting for Grants and Contracts
AUGUST	FASB New Standard Implementation Web Portal - Revenue Recognition
JULY	Microsoft Windows, Office 365 and Other IT Issues in Plain English
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

Nonprofit Observer

After the TCJA
How to keep the giving going this holiday season

New revenue guidance provides direction to nonprofits

Nonprofit accounting is different: Here's how

Building an effective audit committee

FALL 2018

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Services specialized for the nonprofit community

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After the TCJA

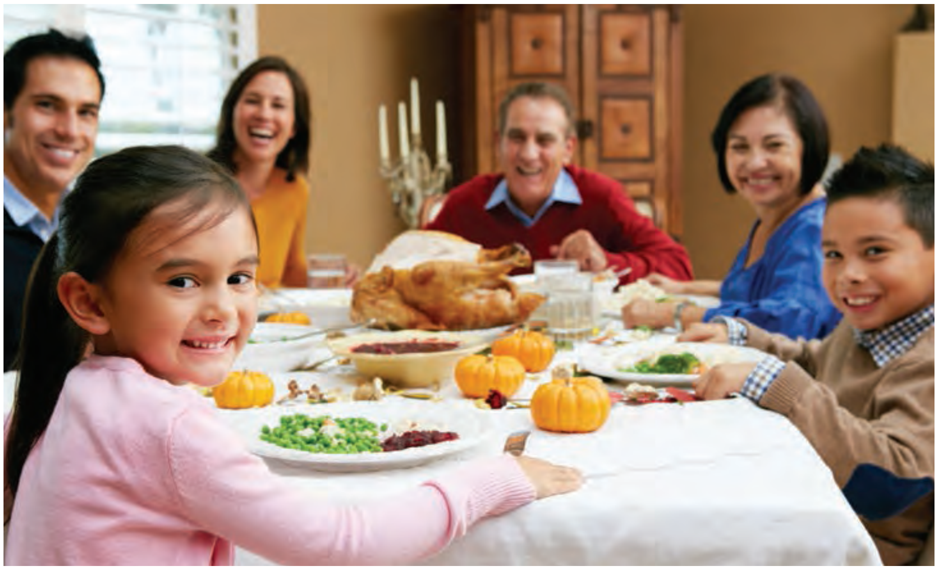
How to keep the giving going this holiday season

Thanksgiving through the end of the year is traditionally the big fundraising season for nonprofits. In one GuideStar survey, U.S. charities received as much as 50% of their annual donations between October and December. And although the holiday spirit moves many donors to give, it's the charitable tax deduction that typically spurs them to make their gifts promptly.

But this giving season is likely to be different. The Tax Cuts and Jobs Act (TCJA) that went into effect January 1 nearly doubles the standard deduction to $12,000 for individuals and $24,000 for couples (through 2025), meaning that fewer taxpayers are expected to itemize deductions. Unless your organization is one of the rare nonprofits that don't depend on end-of-year giving to keep operations afloat, you should rethink your approach to holiday fundraising.

Bunching and other tax strategies

First off, it's important to remember that not all taxpayers are going to stop itemizing. For example, many high-net-worth individuals are likely to continue to welcome the tax benefits of charitable giving. Make sure you provide donation substantiation forms to those who've already made contributions in 2018. And remind them that there's still time to increase their deduction by donating.



You might also promote to potential donors the concept of "bunching." Instead of giving to your charity every year, donors might contribute twice as much every two (or three times as much every three) years. Assuming other deductions push them over the standard deduction threshold, donors would itemize only in "giving years." In other years, they'd take the standard deduction.

Other strategies that provide donors with tax advantages include gifts of appreciated stock and, for those over 70½, donations of up to $100,000 in IRA assets. A charitable gift annuity is another way to potentially achieve multiple objectives.

Ticking clock

In the past, you've likely urged supporters to donate by December 31 so they can deduct their charitable contribution on that year's tax return. And such a deadline usually discourages procrastination. You can still use a "ticking clock" concept to motivate donors. For example, consider participating in Giving Tuesday (November 27 in 2018).

HOPE FOR A UNIVERSAL CHARITABLE DEDUCTION REMAINS

Ever since the passage of the Tax Cuts and Jobs Act, nonprofits have been lobbying Congress to revise a law that they regard as detrimental to charitable giving. In response to the nonprofit sector's concerns, Reps. Chris Smith (R-N.J.) and Henry Cuellar (D-Texas) have introduced the Charitable Giving Tax Deduction Act in the House. Sen. James Lankford (R-Okla.) has sponsored similar legislation in the Senate.

Both bills would allow anyone, regardless of whether they itemize or take the standard deduction, to deduct charitable contributions. But whether Congress takes up the issue this year is still an open question.

Now in its seventh year, this enormously popular 24-hour fundraising event features on- and offline activities and involves thousands of charities worldwide. See givingtuesday.org for more information.

Or you might host your own fundraiser or donor appreciation event in December. It will give you and your staff an opportunity to engage with supporters face to face, touting that year's accomplishments and announcing plans for the coming year. Be sure to follow up with thank you notes reminding attendees that you can't begin to implement new ideas until you know you have the budget to do so.

Tapping the holiday spirit

Almost everyone has someone on their gift list who's impossible to shop for. Encourage supporters to make a contribution to your charity in their name. Not only does this provide you with immediate funds, but the gift may introduce your organization and mission to a potential new donor. Stakeholders, including current donors, staff and board members, might also ask their family and friends to make donations to your nonprofit in lieu of physical gifts.

Although you should avoid anything heavy-handed, use communications during this time to stress that the holidays are about giving without any expectation of getting anything in return. And be honest with supporters about the impact of tax reform. While it may have put more dollars in their pockets, the dwindling of donations from many taxpayers has largely hurt charities.

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Act now

There's still a chance that Congress will act before the end of the year and change the rules on charitable deductions. (See "Hope for a universal charitable deduction remains" above.) But most organizations can't afford to wait for lawmakers to act. Start planning now for what could be a challenging giving season. ●

New revenue guidance provides direction to nonprofits

In 2014, the Financial Accounting Standards Board (FASB) issued a new standard on revenue recognition (ASU 2014-09). The ASU was intended to clarify and standardize across various sectors revenue reporting. But many nonprofits found the new standard confusing because it didn't account for the unique nature of revenue sources such as contributions and grants. Now, with the release of ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, the FASB attempts to resolve some of the questions that have arisen.

Inconsistent characterization

The 2014 standard applies only to revenue from "reciprocal" (otherwise known as "exchange") transactions. But nonprofits characterize certain revenue items such as grants differently. Some organizations may treat a government grant as a reciprocal transaction and others may treat a similar grant as a "nonreciprocal" transaction.

There's also some inconsistency in how nonprofits distinguish between conditional and unconditional contributions. Contributions are considered nonreciprocal, meaning they don't fall within the rules of the standard. Instead, nonprofits generally report promised contributions in the period they receive the pledge. Donor restrictions on how or when the funds may be used don't change the timing of recognition. But when the donor's gift is available only after certain requirements are met by the organization, the timing may be different. Nonprofits shouldn't recognize a conditional promise to give as revenue until the conditions are substantially satisfied.

Granting clarity

The new ASU first addresses the issue of when a grant or similar contract should be characterized as a reciprocal exchange and when it should be considered a contribution. The critical question is whether the "resource provider" (generally, a grantmaker) receives value in return for the resource provided (grant). If so, the transaction is an exchange.

But most transactions of this type are, in fact, contributions. Indirect benefits to the public or execution of the resource provider's mission shouldn't be considered exchanges of commensurate value. Note, however, that payments from third parties as part of an existing exchange transaction (such as those with Medicare) may follow different rules.

Defining "conditional"

The FASB's guidance also tackles conditional contributions. It instructs nonprofits to ask whether a contribution agreement:

1. Stipulates barriers that must be overcome, such as a performance-related hurdle or rules that the organization must follow when using the contribution, and

2. Releases the donor from the obligation to transfer the assets or provides the donor with the right to demand their return if the barriers aren't overcome.

If your agreement contains these items, your nonprofit isn't entitled to the transferred assets until it has met the contributor's conditions.

Finally, a simultaneous release option would allow nonprofits that receive and use grants within the same period to report them as unrestricted net assets. A similar option has been available, but now your nonprofit may elect it for all restricted contributions that were initially classified as conditional without electing it for all other restricted contributions and investment returns.

More contributions likely

The FASB speculates that ASU 2018-08 will result in more grants being characterized as contributions — often conditional contributions — rather than exchanges. For most organizations, the guidance applies to annual reporting periods beginning after December 15, 2018. ●

Nonprofit accounting is different: Here's how

Carolyn, the executive director of an educational nonprofit, was thrilled, after a long search, to welcome two new members to her charity's board of directors — both from the for-profit business world. However, she was a little concerned about a few of the comments and questions that arose in their first board meeting. It was clear the two new directors didn't quite grasp the differences between nonprofit and for-profit financial reporting.

You may have encountered the same issue with new board or staff members more accustomed to profits and shareholders than restricted gifts and donors. Here's an easy way to explain how the two sectors differ.

Profits vs. purpose

As the term suggests, for-profit companies are driven by the desire to maximize profits for their owners. Nonprofits, on the other hand, are generally motivated by a charitable or other tax-exempt purpose. From a financial perspective, they need adequate revenue to enable them to fulfill their mission now and into the future.

Their respective financial statements reflect this difference. For-profits report mainly on profitability and increasing assets, which correlate with future dividends and return on investment to owners and shareholders. Nonprofits report to funders, board members and the community on their financial position, the amounts received or promised from various funding sources, and how funds are used for programs and supporting services.

Statements reflect differences

For-profits and nonprofits use different financial statements for their reporting of assets and liabilities. For-profit companies prepare a balance sheet that lists the owner's or shareholders' equity, which is based on the company's assets, liabilities and accumulated profits or losses. The equity determines the value of a company's common and preferred stock.

Nonprofits, which have no owners, prepare a statement of financial position, which also looks at assets, liabilities and prior earnings. According to recently revised accounting standards (effective for fiscal years beginning after December 15, 2017), resulting net assets should be classified either as those *without* donor restrictions or those *with* donor restrictions.

Another key difference: Nonprofits are generally more focused on transparency than are for-profit companies. Thus, their financial statements and footnotes include disclosures about the:

- Nature and amount of donor-imposed restrictions on net assets,
- Amount, purpose and type of board designations of net assets, and
- Availability and liquidity of assets to cover operations in the coming year.

For example, if a nonprofit has underwater endowments, it must disclose the fair value of the funds, the original endowment gift amount required by the donor's stipulations and the amount by which the endowment funds are deficient.

Other variations

For-profits and nonprofits also take different reporting approaches to revenues and expenses. For-profits produce an *income statement* (also known as a *profit and loss statement*), listing their revenues, gains, expenses and losses to evaluate financial performance.

Nonprofits often rely on grants and donations in addition to fee-for-service income. So they prepare a *statement of activities,* which lists all revenue (less expenses) and classifies the impact on each net asset class. Also, they're required to categorize expenses by both *nature* (meaning categories such as salaries and wages, rent, employee benefits and utilities) and *function* (various program services and supporting activities). This information must be expressed in a grid format that shows the amount of each natural category spent on each function.

For-profits and nonprofits take different reporting approaches to revenues and expenses.

Despite these different approaches, for-profit and nonprofit organizations share some financial reporting similarities. Both must carefully track all of their transactions; maintain supporting documentation; and produce accurate, timely financial statements. Both organization types use financial statements to manage their businesses and make financial decisions. And both can benefit from the services of qualified financial professionals with sector-specific knowledge.

Training is important

Because your board is ultimately responsible for your organization's fiscal health, its members must understand how nonprofit accounting works. If they come to you from the for-profit sector, make sure you provide them with training so they can succeed in their new job. ●

Building an effective audit committee

Your nonprofit's board isn't required to form an audit committee — even if your organization *is* required to conduct audits. Some organizations assign oversight of independent audits to their executive or finance committee — or the entire board participates in the audit process. But a dedicated audit committee, whether it's a temporary task force or a standing committee, can promote better financial reporting, fewer fraud incidents and a smoother audit process.

To work as intended, audit committees need to follow a strict set of rules, particularly when it comes to independence. Good communication — with auditors, fellow board members and the nonprofit's executives — is also critical.

Independence first

What exactly does independence mean? Audit committee members can't be employed by either the nonprofit or the audit firm that's engaged. Being independent also precludes contracting and fee arrangements, but not compensation that committee members might receive for serving on the organization's board. Close family members and business partners of committee members shouldn't be employed by the nonprofit or auditing firm, either.

Ideally, committee members are financially literate — familiar with Generally Accepted Accounting Principles (GAAP) as well as nonprofit financial statements (see "Nonprofit accounting is different: Here's how" on page 5), internal controls, procedures for financial reporting, and financial issues specific to nonprofits. At least one member of your committee should be a financial "expert," such as a CPA or CFO, who has conducted or supervised audits and analyzed audit and other financial reports.

Although there's some discretion in how often your audit committee holds meetings, it should meet at least several times a year to ensure it discusses critical issues thoroughly. All members should receive materials (such as audit reports) for discussion before meetings, and meetings should last long enough for everyone to voice their opinion.

Critical communications

Although the audit committee is an independent body, it's responsible for keeping other parties informed of its activities and decisions. It should meet as needed with your organization's CFO and other financial staffers to discuss management's financial decisions and reporting practices.

In some organizations, audit committees act as ombudsmen and handle complaints from staff and others about potential financial mismanagement. And in almost all organizations, the committee plays an active role in preventing fraud. This includes ensuring that:

- Internal controls are robust and adhered to,
- Suspected fraud activity is investigated, and
- Any perpetrators are punished.

But, of course, the most important communications are those between the committee and your nonprofit's outside auditors. Members should meet with independent auditors before, during and after an audit so audit committee members are able to answer questions and provide feedback throughout the process. When the auditing firm presents its final reports, the committee is responsible for communicating its findings — including accounting or operational weaknesses that should be addressed — to the full board and gaining its formal approval. Depending on the extent of the auditor's activities, your audit committee may want to update the board more frequently during regular meetings.

Reaping benefits

Even if your nonprofit and its board are small, you may reap benefits from forming an audit committee. If you're not sure about adopting what might seem like an additional layer of bureaucracy, talk to your accounting advisor for his or her recommendation. ●

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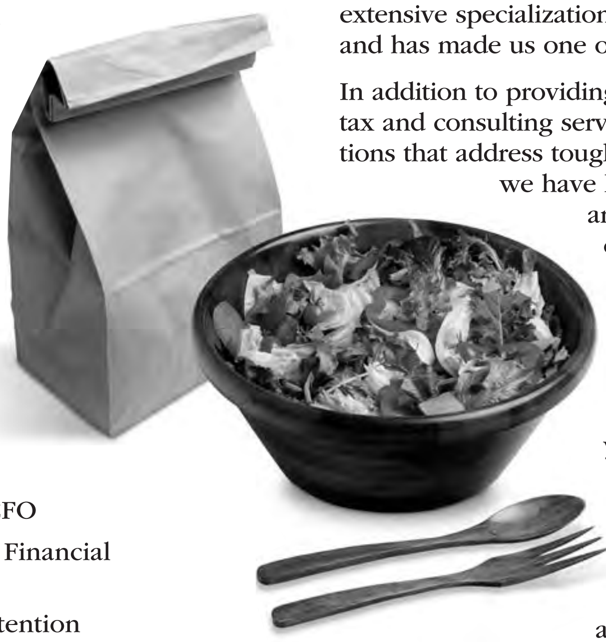
Yes, you can have your lunch — and learn too

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
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- 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	TAXATION	CONSULTING
GAAP and A-133 Audits	Form 990 Disclosures	Executive Compensation
Employee Benefit Plan Audits	IRS Examinations	Board Orientations
Compilation and Reviews	Lobbying Expenses	Investment Policies
Internal Controls	Charitable Giving Compliance	Staffing of Financial Positions
Accounting for Endowments	Independent Contractor Issues	Subsidiary Organizations
Accounting Systems	Unrelated Business Income	Surveys of Members
	Qualified Corporate Sponsorships	