Jones and Kolb
Certified Public Accountants

January 22, 2019

Dear Nonprofit Executive:

Happy New year!

Enclosed is our Winter 2019 issue of ***Nonprofit Observer*** which includes articles on how to attract donor advised fund gifts, the value of a nonprofit treasurer, fundamental steps to deter and minimize fraud, and ways to gather feedback from those you serve. We hope these articles are of interest to you and your organization.

A government shutdown accompanied the arrival of the new year as did a sharp decline in the investment market. Neither of these bode well for businesses or nonprofits. The shutdown has the potential to delay or halt the funding of government grant reimbursements while the market decline will likely reduce endowment returns and discourage major donor contributions.

In addition, the impact of the 2017 tax reform act will soon manifest itself as donors and nonprofits will begin to see precisely what impact the tax changes will have. Questions remain as to how the tax law changes will impact donor giving. Nonprofits were not unscathed by the tax changes as many will see a direct impact on their Form 990-T. Some may be required to file a Form 990-T to report unrelated business income for the first time due to new rules related to organization provided employee parking. Also, the offsetting of unrelated income with losses from other unrelated activities will no longer be allowed.

Also, don't forget, your 2018 financial statements will need to implement the new accounting standard on NFP Financial Statements and your fiscal 2019 financial statements will need to implement the new Revenue Recognition accounting standards as of the start of the new year.

For over 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 two months include:

- Update on income and sales tax issues impacting nonprofits
- Why nonprofits need to pay attention to cybersecurity

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.

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TAX EXEMPT ASSOCIATION (TEA) GROUP
DISCUSSION TOPICS

2018

NOVEMBER	Record retention in the Digital Age
OCTOBER	FASB New Standard Implementation Web Portal – NFP Financial Statements
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

How to attract donor-advised fund gifts

The treasurer may be your board's most valuable asset

No excuses!
Fraud prevention is easier than you may think

5 ways to gather more feedback from the people you serve

WINTER 2019

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Services specialized for the nonprofit community

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How to attract donor-advised fund gifts

Donor-advised funds (DAFs) have been around since the 1930s, but they've exploded in popularity in the past decade. Between 2007 and 2016, DAF assets grew from $32 billion to $85 billion, according to the National Philanthropic Trust. Assets are expected to continue to grow exponentially thanks, at least in part, to the Tax Cuts and Jobs Act.

DAFs have drawn some controversy. Critics claim that DAFs allow donors to plant funds indefinitely without making charitable distributions. Such stockpiling poses a challenge for charities that want to put the money to good use. If your nonprofit is hoping to benefit from the largesse of DAFs, start by learning as much as you can about them.

What are they?

DAFs enable donors to contribute unlimited assets, including cash, securities and real estate, to an account controlled by a "sponsoring organization." Donors receive an immediate tax deduction up to 60% of their adjusted gross income in exchange for their irrevocable gifts.

There are approximately 1,000 sponsoring organizations in the United States. Most fall into one of two basic categories: 1) community foundations and 2) charitable wings of investment-service companies, such as Vanguard Charitable and Schwab Charitable. A smaller group of sponsoring organizations focus on single issues or charitable grantees. All types generally invest and manage DAF assets, screen charities that will receive grants, and make distributions. But policies about such issues as the types of assets accepted, how funds are invested and how often donors must request distributions vary widely by sponsor.

Who makes grant decisions?

Donors make grant recommendations, and although supporting organizations aren't legally required to honor them, they almost always do. But it's worth noting that sponsors play a major role in which organizations ultimately receive grants. Sponsors often suggest charities to donors that match their charitable criteria.

Sponsors also may step in when donors fail to request distributions. For example, if Fidelity Charitable donors don't start naming grantees after three years, Fidelity names charities for them. After seven years of donor inaction, Fidelity grants the entire DAF balance to nonprofits approved by its trustees. But not all sponsoring organizations have such policies. And some critics contend that both donors and sponsoring organizations have too many incentives to hold onto DAF money as long as possible.

How do you attract DAF donors?

To encourage sponsoring organizations to direct gifts to your charity, prioritize these relationships. Let community foundations know that you welcome such gifts and are equipped to handle them. And as your mission and programming evolve, keep such sponsors up to date so they can accurately match your organization with donor interests.

Because some DAFs are anonymous, building relationships with potential donors can be a little harder. But if you've already received a DAF grant, you'll likely find the name of the fund in the gift letter. Be sure to send the donor a thank-you note (via the sponsoring organization, if necessary) and indicate your interest in receiving future gifts or being named beneficiary of a trust. Also put prominent notices on your website and social media pages and in donor emails. And think about featuring DAF supporters in your nonprofit's newsletter and annual report.

Is there anything you should watch out for?

The IRS hasn't issued a lot of guidance about DAFs, so tread carefully when accepting these gifts. For example, there's some uncertainty about whether DAF funds can be used to fulfill pledges. The IRS has stated that DAF funds can be used for this purpose. But donors can't take additional tax deductions for them, and sponsoring organizations aren't allowed to tell grantees that a gift is being issued to fulfill a pledge.

Sponsors play a major role in which organizations ultimately receive grants.

Also, nonprofits shouldn't accept DAF funds if the donor will receive something of value in return, such as dinner or entertainment. For this reason, you shouldn't let donors use DAF gifts to buy event tickets.

Funds are available

DAF distribution rates aren't growing as quickly as DAF contributions — the National Philanthropic Trust says that aggregate distributions have remained stable at roughly 20% annually since 2007. But there is still plenty of financial support available for nonprofits that put themselves forward to connect with DAF donors and sponsors. ●

The treasurer may be your board's most valuable asset

In many organizations, the treasurer is the board of directors' hardest working member. Depending on the duties outlined in your organization's bylaws, this individual might manage cash flow, act as a liaison to outside auditors and craft investment policies. A role this critical to your nonprofit's financial health should be filled by a highly qualified person.

Roles big and small

On the most basic level, nonprofit treasurers oversee financial management and reporting. In larger organizations with accounting staff and a chief financial officer, the treasurer typically heads a finance committee that reports to the board of directors. The treasurer focuses mainly on reviewing internally prepared financial reports and evaluating financial policies and procedures.

In smaller organizations with no internal accounting staff, the treasurer may need to get down in the trenches. For example, a treasurer might:

- Write checks and make deposits,
- Manage and safeguard funds,
- Maintain financial integrity, and
- Oversee outside bookkeepers, tax preparers, fundraisers and investment advisors.

Regardless of a nonprofit's size, the treasurer typically helps shape financial policies, such as those for investing, borrowing and cash reserves. And this individual presents regular reports to the board of directors, ranging from a simple dashboard to a detailed, data-heavy presentation.

Key responsibilities

Depending on your organization's resources, your treasurer might take on duties personally or simply provide oversight to confirm that staff is handling them appropriately. But in most organizations, the treasurer presents an annual budget for board approval and frequently reviews interim reports for variances between actual and budgeted figures.

Your board also relies on your treasurer to provide timely and accurate financial information to support its decision-making. In addition to financial statements, this person might supply information on financial ratios and trends that describe the organization's current and projected financial status.

Compliance with relevant laws and tax regulations is another top priority for treasurers. Among other things, your treasurer should work with your financial advisors and keep a calendar of reporting and filing deadlines to avoid late fees, penalties and possible reputational damage. And he or she also should coordinate with financial advisors and insurance agents to perform periodic risk assessments, particularly when it comes to assets, data and confidential information.

Once your nonprofit reaches a certain size, an independent CPA should annually audit its books. But your treasurer should be responsible for reviewing the results and recommendations and presenting them to the board.

Job qualifications

Not just anyone should serve as a nonprofit treasurer. Look for an individual with demonstrable financial literacy, including a thorough understanding of nonprofit financial reports and accounting practices. A good treasurer also pays close attention to detail, adheres to deadlines and keeps accurate records.

The most effective nonprofit treasurers usually boast strong communication and leadership skills. They're able to translate numbers and concepts such as unrelated business income into jargon-free, plain English that can be readily understood by all board members. And while a nonprofit's accounting or finance staff might draft the annual budget, the treasurer must explain and potentially defend it to the board.

Start a search

Many nonprofits encounter challenges when seeking qualified individuals to serve on their board. This can be particularly difficult if you're trying to recruit someone to serve as treasurer. Consider local business executives, particularly CFOs, and professional advisors such as CPAs. Even if they're not able to serve, your advisors may be able to recommend someone who could. ●

No excuses!

Fraud prevention is easier than you may think

Most research has found that nonprofit organizations are no more likely to fall victim to occupational fraud than their for-profit peers. On the other hand, there's reason to believe that nonprofits underreport fraud incidents and are reluctant to prosecute thieving employees to protect their reputation with donors and the public. The fact is, according to the Association of Certified Fraud Examiners, defrauded nonprofits suffer a median loss of approximately $75,000 — an amount few can afford to lose.

Rigorous internal controls and an ethical culture can mean the difference between a thriving organization and financial ruin. You may be happy to learn that most fraud prevention measures are easy and inexpensive to implement.

Cultural conditions

It's often said that fraud prevention starts at the top. This means that your board of directors must acknowledge that fraud can occur in your organization and that it's their duty to prevent it. When the board insists on a culture of honesty and accountability, this attitude trickles down to executive offices, individual departments, ordinary staffers and volunteers.

It's also critical to treat employees well. The charity sector isn't known for paying high salaries to employees. But organizations that allow workers to grow resentful unwittingly promote fraud because occupational thieves often rationalize that they deserve more than they're getting. Even if your nonprofit's pay isn't equal to that of similar for-profit businesses, you can provide a congenial work environment and might offer such perks as flexible working hours and telecommuting.

Internal control checklist

An ethical culture alone isn't enough, however. You also must establish policies and procedures that everyone — including executives — are required to follow. (One of the biggest mistakes an organization can make is to allow managers to routinely override fraud controls.)

You won't be able to prevent every possible fraud scenario. But when designing controls, identify risks that are most probable and that would lead to the greatest financial, public relations or other consequences. (See "Where the fraud is" on page 6.)

Almost all nonprofits should include the following policies:

Perform background checks. How extensively you screen job applicants and volunteers may depend on their prospective duties. For example, ensure that accounting employees have no history of embezzlement and aren't deeply in debt. At the very least, check all personal references and verify the applicant's previous employment, education, military service or professional designations.

Segregate duties. This involves separating duties among staffers so that no one person can exploit his or her access. For example, assign one employee to approve invoices, another to prepare checks and a third to sign them. If you don't have adequate staff to properly segregate duties, enlist the help of board members or consider outsourcing functions such as payroll.

Protect files. Make sure employees have access only to the files, programs and systems required to do their job. Password-protect all sensitive information and require that passwords be changed often.

When designing controls, identify risks that are most probable and that would lead to the greatest financial consequences.

Check spending. Require preauthorization for spending, limit credit card access and scrutinize staffers' expense reports. Also, have a board member review your executive director's purchases.

Count cash. When staffers or volunteers report event ticket sales, make sure they turn in a corresponding amount of cash — and the correct number of unsold tickets. Also compare cash receipts logs to the cash receipts ledger entry and actual bank deposit.

Verify vendors. Periodically audit vendor lists for anything suspicious, such as addresses that match those of employees or regular payments to one vendor that fall just below the amount required for approval.

Review bank statements. Have someone other than the individual who writes your organization's checks review monthly bank statements. If you require dual signatures on large checks, don't rely on your bank to notice that one is missing.

Internal control policies should be in writing and posted where they are visible to everyone in your organization. In addition, they should be reviewed and tested regularly for continued efficacy.

Don't let them get away with it

Nonprofit employees who commit fraud typically assume that they won't get caught — and that, even if they do, the consequences will be minimal. Unfortunately, this belief is valid in many nonprofits. If you fail to prosecute fraud and instead quietly fire the offender and suffer the financial losses, you send a message that your nonprofit is an easy mark.

Instead, if you suspect malfeasance, call in a fraud expert to investigate. Forensic accountants can conduct interviews and examine documents (including electronic files) for evidence of theft. This enables you to identify the perpetrator and potentially recover losses in court. ●

WHERE THE FRAUD IS

Fraudsters know that scams that won't fly in one sector of the economy are easy to perpetrate in others. For example, many nonprofits task volunteers or unsupervised staffers with collecting cash donations and payments, making them particularly vulnerable to skimming (theft of funds before they're recorded). Other schemes common to charities include:

- Credit card abuse,
- Expense reimbursement schemes,
- Theft of supplies and other physical assets, and
- Inventing invoices and making payments to fictitious vendors.

5 ways to gather more feedback from the people you serve

According to the Center for Effective Philanthropy, practically all nonprofits in the United States (an astonishing 99% of surveyed organizations) say they solicit feedback from their clients when designing programs and services. However, resource constraints — lack of adequate staffing, funding and sophisticated technology — may mean that they don't collect data as often as they'd like or use it as well as they could.

If you would like to collect more, and more meaningful, feedback from the beneficiaries of your nonprofit's services, here are five suggestions:

1. Use every opportunity. Every encounter with clients is an opportunity to solicit feedback. So include online surveys with your email newsletters, request feedback on your website and pull aside clients when working in the field. When you receive verbal feedback, follow up in writing so you have a record of the conversation and can easily share it with others in your organization.

2. Take full advantage of social media. Platforms such as Facebook, Twitter and LinkedIn are free, easily accessible and frequent destinations for many of your clients. Use the sites' survey tools, regularly invite viewers to leave comments about your posts — or even ask them to recommend or write a review of your nonprofit. Also provide an email address or SMS number for texts so that clients can contact you directly.

3. Don't neglect the "off-liners." Depending on the population you serve (for example, lower income or elderly people), not all clients may have easy Internet access or social media accounts. Keep paper surveys, and even an old-fashioned suggestion box, handy in your office.

4. Show your appreciation. Let your clients know that you're listening. Thank them for every communication and, when possible, let them know how you're using their feedback to address shortcomings and make improvements. In some cases, you may want to schedule one-on-one meetings or focus groups where you can discuss plans in greater detail and let clients know how valuable they are to the decision-making process.

5. Find funding. If budgetary limitations are preventing you from seeking client feedback, look for financing. For example, the Fund for Shared Insight matches nonprofits seeking to improve client feedback loops with foundations giving grants for such research. In 2018, the Fund facilitated $22.7 million in grants to nonprofits for client surveying. ●

Yes, you can have your lunch — and learn too

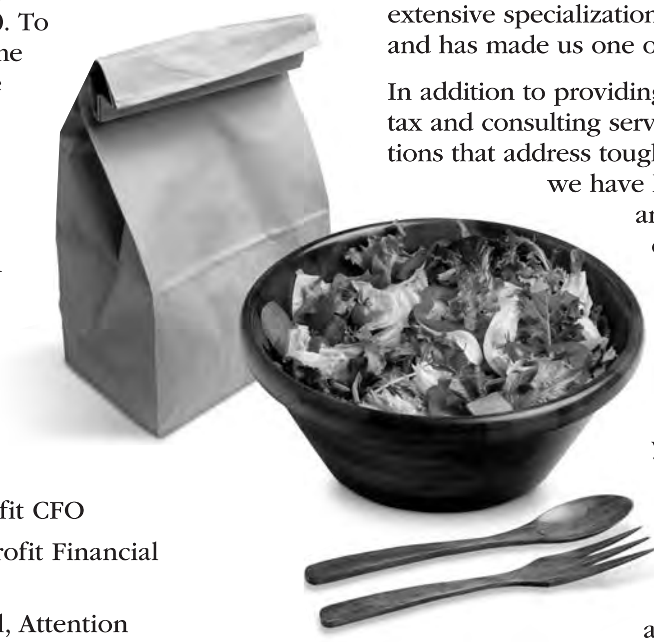
At the Jones and Kolb monthly Tax Exempt Association (TEA) Group luncheon

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	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	