

NON PROFITGPS

HELPING TO KEEP YOU ON THE RIGHT ROAD

Published by Heveron & Company CPAs

This month's WebStar Winner is: techsoup

www.techsoup.org

We have talked about techsoup in the past, but we were recently reminded of the value they provide while searching for guidance about migrating to Microsoft Office 2016. (Not surprisingly, techsoup had an article about the new and different features in this version of Office.)

Techsoup's mission is to serve charities and they do this in a variety of ways including guidance, articles, and discounts, such as \$150 annually off GoDaddy domain names and hosting websites. Racecar driver Danica Patrick who is sponsored by GoDaddy, likes that idea.

Look at techsoup's articles by category and you will see a lengthy list of topics and services covering everything from accounting to fundraising and human resources to telecommuting.



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Finally! Clarity About How to Report Government Grants

Contributions are unilateral transactions: the donor doesn't get something of comparable value in return.

Revenue, however, is an exchange transaction. Both parties do get something of comparable value.

But, what is a government grant?

This question has never been clearly answered until now. Previously, some non-profits report grants as revenue, while others report them as contributions. However, contributions and revenue are reported differently and at different times. This lack of clarity has been a problem.

Recently, the FASB released proposed guidance that would treat most government grants as conditional contributions. Conditional contributions are recorded as contributions when conditions are met.

To qualify for this treatment government grants must meet a two-part test. First, they must be non-reciprocal, and the FASB clarifies that even if there are benefits to society that further your mission, it won't be considered a comparable reciprocal value. Secondly, conditions must exist. Does the "donor/grantor" require repayment if the money isn't used for the stated purpose? Since that is usually the case, most government grants will pass the two-part test to be treated as conditional contributions.

Other conditions include the requirement to serve a certain number of beneficiaries or provide a certain number of service units. Circumstances where the non-profit has little discretion over how resources are spent or where grant funds are used to carry on activities they would not be able to do without this funding would also be conditions.

This tentative conclusion also means government grants would almost always be treated similarly in your financial statements and on your 990. The 990 rules currently treat government grants as contributions. More importantly, the non-profit industry will now have clarity and consistency in their treatment of government grants.

The FASB is accepting comments through November 1 and should issue a final pronouncement shortly after.

Published by
Heveron & Company

585-232-2956

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Coffee Shop Operated by a Non-profit Wasn't an Unrelated Business

In a private letter ruling (LTR201710005), the IRS concluded the operation of a coffee shop by a charity contributed importantly to the achievement of the charity's exempt purpose and, therefore, the operation of the coffee shop was not an unrelated trade or business.

Private letter rulings only apply to the organization they are prepared for, however, they help us understand the thinking concerning similar transactions.

The private letter ruling in this case stated the sale of food and drink at the shop will help attract visitors to the organization. Having a coffee shop onsite will relieve the need for visitors to seek food and drink outside the organization, thus allowing them to spend more time viewing the organization's exhibits and historical artifacts and utilizing the organization's atrium, archive, library, and multi-purpose spaces. Having an onsite coffee shop also will benefit the organization's staff and employees, allowing them to remain onsite throughout the day, contributing to the organization's efficient operation.

Patronage of the coffee shop by the general public will not be solicited, directly or indirectly. The coffee shop as proposed is not designed to be a public eating establishment but, rather, is intended to be a convenient eating place for visitors, staff, and employees of the organization. Thus, the operation in this manner will be a service that contributes importantly to the achievement of the organization's exempt educational purposes. Consequently, the organization's operation of the coffee shop will not be an unrelated trade or business.



This is a positive ruling for organizations that operate a coffee or snack shop, and also a reminder of how it should be operated to reduce the possibility that it will be treated as a taxable unrelated business activity. If you would like more specifics about how IRS will be doing audit selections reach out to us.

How to Detect a Malicious Phishing Email

Carbonite, a company that provides IT security services with encryption, backup and cloud storage lists ways to identify a malicious email.

They reminds us emails often appear to come from a legitimate company or a personal acquaintance, and that they either try to trick people into providing personal information such as credit card or Social Security numbers or try to get recipients to open an attachment that unleashes ransomware (software that will lock access to your computer until you pay ransom).

Senders have become much more sophisticated; emails that used to contain typos and broken language are now very cleverly written.

With that in mind, Carbonite recommends using caution when:

- Asked for personal information such as Social Security or credit card information.
- The email offers something that seems too good to be true, rewards, vacations, or a "prince's ransom."
- The salutation looks unusual.
- If you hover over a link without clicking on it to see the full link (URL), any deviation from the organization's exact name is cause for caution.
- If the email proposes to direct you to a site that begins with http, rather than https, you should be concerned because advanced security measures are not in place.
- Finally, trust your instinct. If your gut says this might be a problem, delete the message.

Capstone Information Technology adds the following cautions:

- Aggressive urgency can indicate a phishing email.
- Asking for your password should put you on alert.
- Emails appearing to come from the senior employee in your organization may be bogus.

They suggest passwords with at least 14 characters. Consider using a phrase with uppercase and lowercase letters and some punctuation. For example, *I10vemyP4sswOrd*. Don't use personal or family information.

Capstone provides security monitoring, systems management, backups and related services and they offer a free "Fit Assessment."

Are Charitable Payments You Make Reportable?

Many charities are confused about how to report payments they make. Sometimes charities erroneously issue 1099s to report payments to charitable beneficiaries.

The IRS has an excellent resource to help distinguish reportable/taxable payments from non-reportable gifts or other exempt payments. The resource is IRS publication 525.

Start with the index and you will find the proper treatment of gifts, facilities and lodging, fellowships, foster grandparent program payments, educational assistance, employee discounts and the like.

It is important to understand the difference between taxable and nontaxable payments and the reporting rules.

Reasons to Review Your Bylaws

St. John Fisher College's Center for Community Engagement provides a free electronic newsletter with regular guidance for charities. A recent article answered the question, "Do we really need to review our bylaws?"

The article lists compelling reasons including: bylaws provide direction and guidance, information about essential committees, and the authority of those committees.

They note bylaws should document, among other items, whistleblower and conflict of interest policies and identify who is an "independent director."

The article also recommends best practices such as a policy permitting electronic communications, board indemnification and insurance covering that indemnification, and limiting the number of committees, combined with a flexible policy permitting the board to create additional committees as needed.

Of course, if you haven't updated your bylaws for the Nonprofit Revitalization Act, and the amendments to that act, your bylaws may not be in compliance with those new rules.

Your attorney should be able to identify required and recommended changes.

Charities that Receive Federal Funds Need a Procurement Policy

The deadline for charities to have a procurement policy has been extended multiple times—now the deadline is approaching.

That deadline means January 1, 2018 for charities with calendar year ends, and the beginning of your 2018 fiscal year for charities with fiscal year ends. The Office of Management and Budget staff has stated that there will be no more extensions.

Your policy needs to be drafted to comply with Uniform Guidance. It should be approved by your board and communicated to your staff. Staff involved with procurement need to be familiar with the policy so training is a must. The procurement standards can be found in sections 200.317-326 of Uniform Guidance.

Contact us about sample language for a procurement policy or for training assistance. We are happy to help.

Pet Visitation Therapy Qualifies As a Charitable Activity

Another recent IRS letter ruling (LTR201719018) confirmed that a charity, providing pet visitation therapy for hospital patients—primarily children and elderly nursing home residents—was performing a charitable service.

Participants played with trained, health-certified therapy dogs and interacted with the dogs handlers who also had training to conduct pet therapy sessions. The objective of the therapy was to lessen distress, improve mental well-being and encourage socialization among patients.

The IRS may have a softer side after all!

