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NON PROFIT GPS
HELPING TO KEEP YOU ON THE RIGHT ROAD

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This month's WebStar Winner is: nonprofitaccountingbasics.org

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nonprofitaccountingbasics.org, is a project of the Greater Washington Society of CPAs. Their website has a particularly helpful research page for nonprofit bookkeepers and others who want to learn about nonprofit accounting.

The site also has information about internal controls, financial reporting, governance, and annual filings.

In addition, they curate a list of recent articles about subjects such as information security and privacy, and retirement plan compliance. Worth a bookmark!

(Plus, nonprofitaccountingbasics.org put all of our WebStar winners on NFPNet.org.)

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Top Technology Tips for Nonprofits

If you missed the annual nonprofit accounting conference in January, you missed several great presentations, including one by the head of IT for the New York State Bar Association. He had several suggestions for securing nonprofit confidential information.

He reminded participants cyber security isn't just an IT issue because it affects your finances and your reputation, and creates the potential for fines and lawsuits. Mobile devices (when tied into your server in any way) pose the greatest risk. His proposed solution is for them to be password-protected and configured for "remote wipe"—the ability to delete information without having the phone. He also mentioned some new technology that partitions phones to separate business and personal information so if a remote wipe happens, pictures of your mom and other favorite pictures and songs don't get deleted.

His talk included information about the Home Depot breach and explained how the hackers went through an HVAC contractor who was doing work tied into Home Depot. He said that there are 177,000 attacks per day, but current and former employees as well as service providers pose the greatest risk.

In addition, the biggest fines result from HIPAA violations which result from lost thumb drives and laptops.

His suggestions for survival included the following:

- Install Google or Apple "where's my phone" apps to locate a lost phone
- Pay with a credit card rather than a debit card to reduce potential liability
- Before opening a link you weren't positive about, right click on it to verify where it is going
- Avoid public access Wi-Fi
- If you get a message that your computer has a virus and you need to download a program to get rid of it—DON'T DO IT!
- Don't install any apps other than through an app store

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INSIDE THIS ISSUE:

Internal Controls—Another View of the COSO Components

Taking another look at this internal control framework is very timely because all nonprofits need good controls. Starting this year any nonprofit obtaining federal money directly or indirectly has additional responsibilities for internal controls over administration of their federal awards that comply with COSO or another comprehensive framework.

The COSO components are: control environment, risk assessment, control activities, information & communication, and monitoring.

A recent speaker from a Seattle Washington CPA firm provided the following highlights of what each of the components means.

- Control Environment means a proper tone at the top and competent personnel
- Risk Assessment asks what has changed and what could go wrong
- Control Activities include segregation of duty and compensating controls, and also involves your policies and procedures
- Information & Communication requires there be proper data and reports, as well as inbound and outbound communication
- Monitoring requires skepticism by management, and periodic evaluations.

This is a very concise summary. For more details, Google "COSO Executive Summary", or contact us for the summary and additional resources.

Insubstantial Benefits for Donors

Tax rules say donors who receive "insubstantial benefits" can ignore those benefits and claim the full amount of their contribution under certain circumstances. Amounts have been updated for 2015.

Benefits received can be ignored when:

- The fair value of all benefits received is not more than either $105 or 2% of the contribution
- The contribution is at least $52.50 and the cost of the benefits received is no more than $10.50
- When, as part of a fundraising event, benefits of no more than $10.50 are distributed to potential donors we don't request or expressly consent to receive them

Your Form 990 Is Going to Be More Accessible in the Future

Public.Resource.Org, a charitable organization, filed a lawsuit to force IRS to release nonprofit tax forms in a computer readable format. This will make it easier to conduct online searches of your 990. The clear message is that the information in your 990 can be reviewed by potential donors or funders, the press, and others. Be sure that the information, including explanations in Schedule O are appropriate.

Also, the new head of exempt organizations at IRS states they have made significant changes including reducing the backlog of exemption applications. The new 1023 EZ form accounted for more than 3,400 applications during the second half of 2014, more than half of all of the exemption applications IRS received.

Tamara Ripperda, the new director, told a New York City nonprofit tax conference audience that in the spirit of trusting but verifying, starting in 2016, 3% of 1023 EZ applications will be randomly selected for review, to find out who is using these forms and whether they are proper. Director Ripperda said they will be more strategic with this process and also in general with their audits of forms 990.

There are some serious concerns about the form 1023 EZ. One is that private foundation donors may not be able to rely on exempt status based on a 1023 EZ. That may cause additional work for private foundations, therefore, they would most likely avoid any donations to organizations that got their exempt status by filing form 1023 EZ.

Ripperda said also stated that there will be some audit focus on unrelated business income activity, employee versus independent contractor issues, and international activity.

Guest Article

Unknown Risks Lurking in Your Retirement Plan

By Mark Armbruster, CFA
Armbruster Capital Management, Inc.

Many organizations view retirement plans, such as 401(k) and 403(b) plans, as a necessary evil. They help attract and retain talent, but can be expensive and difficult to monitor and administer resulting in these plan often being ignored.

Plan trustees are ultimately responsible, but often are unaware of the liability they are assuming. It is not unusual for retirement plans to be overseen by the plan trustee's golfing buddy or brother-in-law. This can result in an arrangement that unduly benefits the broker at the expense of plan participants.
Even worse, the retirement plan industry is rife with abuses. Brokerage firms, banks, insurance companies, and investment advisors have all jumped on the retirement plan bandwagon. Selling products that are both complicated and expensive appears to be the norm.

The Department of Labor has taken notice, and has stepped up its oversight of these plans. Recently, there have also been a number of high-profile lawsuits where employees have sued their employers for providing subpar plans.

Retirement plans are highly regulated, and must be managed in the best interest of plan participants. Fortunately, there are some simple steps trustees can take to help ensure they offer participants an honest plan that is in compliance with DOL regulations.

Using index funds can significantly reduce investment costs. Too often, expensive mutual funds find their way into these plans, as their hefty fees are used as kickbacks to offer additional compensation to brokers and administrators. Also, index funds, by definition, match the returns of the market, avoiding negative performance surprises. This can help mitigate the odds of an employee lawsuit, while potentially saving money for both participants and the sponsor.

Target date funds are another good idea. These funds offer a diversified mix of stocks, bonds, and cash. They automatically become more conservative as participants age. Target date funds offer a simple, one-stop shop for participants not wanting to take the time to build their own portfolios. Those using index funds are the best option.

Removing overly risky investment funds from the lineup is another important protection. It is not unusual to see retirement plans with high-yield bond funds, emerging market funds, commodity funds, and others. While these can play a role in a diversified portfolio, participants may overly concentrate in these funds at the wrong time, and ultimately lose a lot of money. Using broadly diversified stock and bond funds is a more prudent approach.

While many plan sponsors take a "head-in-the-sand" approach to plan administration, there is a more effective way. It is possible to offer a commonsense plan that meets employees' retirement saving needs and sponsors' fiduciary responsibility.

A Note from John Heveron
Mark and the Armbruster team help nonprofits and other clients evaluate their retirement plans. Sensible investments and reasonable costs can make a huge difference to nonprofit employees at their retirement.

Peter Carpino Wins the Pathstone Visionary Award

On February 11, 2015, Peter Carpino, CEO of the United Way of Greater Rochester, received the Pathstone Foundation Visionary Award for the Synergy Fund he established to help charities evaluate and/or execute collaboration with other charities.

The combination of this funding and access to professional expertise has helped a number of charities investigate, and in many cases collaborate with, other charities.

Congratulations Peter!

Sarah Solorzano Passes Her CPA Exam

Sarah Solorzano was recently notified that she passed all parts of the CPA exam!

Sarah is the 11th person on the Heveron & Company staff to complete the requirements for the CPA exam.