



NON PROFIT GPS



HELPING TO KEEP YOU ON THE RIGHT ROAD

Purchasing Policies for Nonprofits Not Required to Have Federally-Compliant Purchasing Policies

If you have federal awards that reimburse costs for programs you operate, you have one more year to have a compliant purchasing policy in place.

If you aren't required to have a federally compliant purchasing policy, you might benefit from the wisdom and best practices required for these policies.

Consider the following and start with your objectives to:

- Limit purchases to necessary items
- Minimize the possibility of theft or misuse
- Control costs while ensuring quality
- Comply with funder requirements and regulations
- Properly identify the programs benefitting from the service

Any conflicts of interest with purchasing should be prohibited.

Objectives for purchases should be documented; for example:

Purchases must be necessary and reasonable for the performance of the activity. Economical purchase procedures (such as consolidation of purchases), and lease versus purchase, where appropriate, should be considered.

Federal purchasing rules put purchases in three categories by proportion (let's call them small, medium and large) with increasing oversight based on the size. For smaller purchases be thoughtful and consider different vendors. For larger purchases, investigate pricing and consider a lease versus purchasing. For the largest purchases, use competitive bidding. For example, sealed bids for construction contracts.

Federal rules also strongly encourage purchases from minority and woman-owned businesses. (By the way, Heveron & Company, CPAs is a New York State certified woman-owned business.)

Finally, your policy should state that any violations of the policy will be subject to disciplinary action.

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JOE NYC: A New Twist on Affordable Housing

JOE is an acronym for joint ownership entity. JOE NYC is applying the model of real estate investment trusts (REITs) to affordable housing in New York City.

JOE NYC is a nonprofit founded by a group of large New York City nonprofit community development corporations. JOE NYC launched recently to take ownership of 3,000 affordable housing apartments across 50 developments. Their objective is to improve management efficiency and to provide a return to the contributing organizations that will be greater than the return they could have earned with the property by themselves.

Their clever approach won them a 2017 Big Apple award for innovation of the year.

As affordable housing projects have become more competitive over recent years, for-profit organizations have become more active in affordable housing, but for-profits are much more likely to convert housing to market rate rather than continue to operate projects as affordable housing. JOE NYC, and similar organizations, give nonprofits leverage to acquire affordable housing projects from for-profit developers.

Visit www.joenyc.org to learn more.

Top Issues for Nonprofits in 2017

The AICPA recently posted a blog on "Top Issues for Not-for-Profits This Year" and the CPA Journal recently posted an article about "Top Challenges Facing Not-For-Profit CFOs Today." Here are some observations and recommendations from those resources.



Top challenges for nonprofit CFOs include overseeing many functional areas which may include: finance, information technology, human resources and employee benefits, real property, facilities, insurance, contracts and legal.

Nonprofit CFOs also need to juggle strategy and operations, especially in smaller nonprofits. The article suggests that CFOs were primarily number crunchers in the past but now the majority of their time needs to be devoted to strategy. Compliance, regulations, unfunded mandates and risk mitigation are their biggest challenges.

The article concludes with important strategies for nonprofit CFOs including: time management, effective delegation, leveraging technology and engaging the board.

The AICPA top issues for nonprofits lists cybersecurity first because of hacking attacks and credit card fraud. This is particularly important for charities that accept contributions electronically.

Technical accounting changes will also be a big deal for nonprofits in the years ahead. There will be major changes to nonprofit financial reporting resulting from three new accounting rules including: nonprofit financial statement modifications, revisions to lease reporting and changes to revenue recognition. There are also new rules regarding consolidation and going concern evaluation and disclosures.

Finally, nonprofits need to be aware that IRS audits of form 990 are being revised as IRS has been doing a deep analysis of these forms to help select filings for examination. Care must be taken with the preparation and review of these forms before they are filed to reduce the risk of IRS audit.

Contact Stephanie Annunziata at stephanie@heveroncpa.com if you would like more specifics about how IRS will be doing audit selections.



How IRS Reviews Your Application for Exemption

You may know if you apply for exempt status using form 1023-EZ, IRS does not do much of a review. In fact, the IRS says that the processing time for these forms is 14 days versus 97 days for form 1023.

Almost 88,000 forms 1023-EZ have been processed since the form was introduced—that's roughly 20% more than the number of forms 1023 processed during that time.

94% of the forms 1023-EZ have been approved. This saved a lot of time for IRS and as a result they have shifted responsibilities for some agents who reviewed these forms to audits of nonprofits, so the risk of audit is slightly higher.

IRS also recently announced they are going to make form 1023-EZ data available online. If you go to IRS.gov you will find 1023-EZ data from applications beginning in mid-2014 available in spreadsheet form. This information will be updated quarterly starting in 2017.

They also announced there will be more education about the form 1023-EZ because their reviews of form 1023 showed 22% of them would have qualified for form 1023-EZ.

When IRS gets a form 1023 they will review the articles of incorporation or other governing document to be sure it limits the organization's purpose to exempt activities. They also look for any circumstances that might allow the organization's earnings to benefit a private individual, and for circumstances where the charity might be involved in attempting to influence legislation, participate in political campaigns, or carry on similar activities.

IRS describes a five step process they follow when reviewing the 1023 which includes:

- Identifying potentially disqualifying issues
- Determining all relevant facts using a standard questionnaire or individually composed questions
- Researching relevant law
- Applying the relevant law to the specific circumstances
- Approving or denying exemption

It is important to use care with your exemption application. That can greatly reduce processing time and possibly be the difference between approval and rejection.

We have lots of experience with applications for exemption. Let us know if you have questions or would like assistance with preparing your application.

IRS Audits of Charities to Be Less Confusing

IRS audits of charities are often confusing because it isn't clear why the charity is being audited or what the IRS auditor is looking for. That changed in April 2017 with a new requirement for IRS auditors to discuss the issue being examined and the information needed prior to issuing a written request for files and documentation (an information documentation request).

Audits are always distracting and time-consuming, although they are often also educational. With this new procedure, charities will have a much better idea about the purpose for the audit.

Jeanne Beutner, CPA Promoted to Full Partner

Jeanne Beutner has been a principal at our firm since 2015, and she has been in public accounting since January, 1997. She joined Heveron & Company, CPAs in 2004.

Jeanne is a graduate of Niagara University and she also studied for a summer at Schiller International University in London, England.

She leads audits and compliance audits for nonprofits and educational organizations. She also helps plan and present some of our firm's continuing education.

Jeanne assisted with development of the New York State Department of Education audit guide and was a presenter for a New York State Department of Education program for charter schools.

Jeanne says "the best part of my job is getting to know our clients and working with them. I love how our firm is so service-oriented. We really focus on helping our clients in any way possible."



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This month's WebStar Winner is: The Nonprofit Risk Management Center

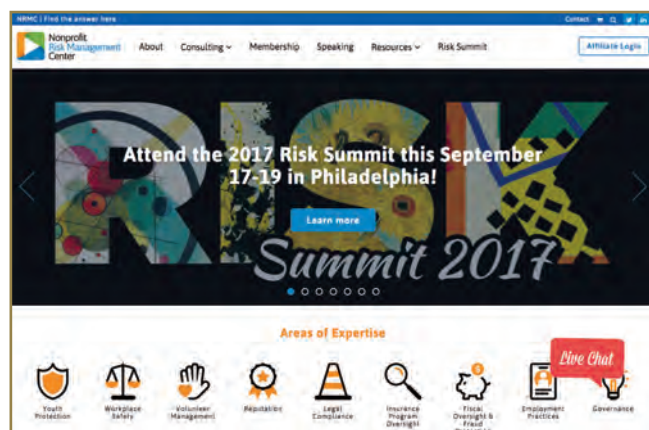
www.nonprofitrisk.org

We believe a big part of our responsibility as nonprofit auditors is helping our clients manage risks that could impact their funding, assets, or operations. The Nonprofit Risk Management Center has a mission to inspire effective risk management and to enable nonprofit leaders to identify and manage risks that threaten their missions and operations while empowering them to leverage opportunities and take bold mission-advancing risks.

The resources include newsletters with topics such as: succession planning, employment practices, workplace safety, youth protection, and travel safety.

A recent article titled "Cybersecurity: Is Your Nonprofit at Risk?" talks about the sources of dangers for nonprofits, a strategy to break down and prioritize risks, and steps to reduce them. The article also talks about liability from third parties and provides some wisdom about cyber liability insurance.

Additionally, they provide an app which helps nonprofits benchmark their risk to their peers.



You'll also find books about insurance, staff screening and preparation for/recovery from a crisis.

One of the key elements of internal controls includes monitoring, ongoing assessment of your policies, procedures and controls. The Nonprofit Risk Management Center has many resources to help you do that.



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