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NONPROFITSTANDARD

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 91, *CONDUIT DEBT OBLIGATIONS*

By Susan Friend, CPA

The Governmental Accounting Standards Board (GASB) issued Statement No. 91, *Conduit Debt Obligations,* in May 2019 to attempt to eliminate diversity in practice related to the accounting for conduit debt issues.

This Statement aims to improve the existing guidance for conduit debt that exists in GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations,* which allowed for variation in practice among governments that issued conduit debt, affecting the comparability of financial statement information. The variation was the result of the option for government issuers to either recognize a conduit debt obligation as a liability in their financial statements or disclose the obligation only. Statement No. 91 clarifies the definition of conduit debt and establishes that a conduit debt obligation is not a liability of the issuer. The Statement also establishes standards for accounting and reporting for additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations. Additionally, the Statement enhances required disclosures in the financial statements. The requirements of this Statement are effective

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GASB STATEMENT NO. 91

for reporting periods beginning after December 15, 2020, with earlier application encouraged.

Pursuant to the Statement, for accounting and financial reporting purposes, a conduit debt obligation is a debt instrument issued in the name of a state or local government (the issuer) that is for the benefit of a third-party who is primarily liable for the repayment of the debt instrument (the third-party obligor). A conduit debt obligation has all the following characteristics:

- There are at least three parties involved, (1) an issuer, (2) a third-party obligor and (3) a debt holder or debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer (a bond with equal rights to the collateral as other bonds issued under a common bond indenture), nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation.

All conduit debt obligations involve the issuer making a limited commitment. In a limited commitment, no responsibility for debt service payments beyond the resources, if any, provided by the third-party obligor are assumed by the issuer. Some issuers extend additional or voluntary commitments of its own resources. When an issuer makes an additional commitment, the issuer agrees to support debt service payments only in the event the third-party obligor is, or will be, unable to do so. When an issuer provides a voluntary commitment, the issuer on a voluntary basis decides to make a debt service payment or request an appropriation for a debt service payment in the event the third-party obligor is, or will be, unable to do so.

Although government issuers will no longer report conduit debt obligations as liabilities, they may need to recognize a liability related to additional commitments they make or voluntarily provide associated with that conduit debt. The Statement requires a government issuer to recognize a liability associated with an additional commitment or voluntary commitment if qualitative factors indicate it is more likely than not it will support one or more debt service payments for a conduit debt obligation.

If the recognition criteria are met, the issuer should recognize a liability and an expense in the financial statements prepared using the economic resources measurement focus. The amount recognized for the liability and expense should be measured as the discounted present value of the best estimate of the future outflows expected to be incurred. If there is no best estimate available, but a range of estimated future outflows can be established, the discounted present value of the minimum amount in that range should be recognized. Under the current financial resources measurement focus, an issuer should recognize a fund liability and expenditure to the extent that the liability is normally expected to be liquidated with expendable available resources.

As long as the conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate, at least annually, whether the recognition criteria have been met. If an issuer has made a limited commitment, they should evaluate the likelihood that it will make a debt service payment due to a voluntary commitment when there is an event or circumstance that causes the issuer to consider supporting debt payments for that conduit debt obligation. If an event or circumstance occurs, the issuer should apply the recognition and measurement criteria for recording a liability and an expense. For limited commitments, the issuer should annually reevaluate whether that recognition criteria continues to be met for that specific obligation.

This Statement also addresses arrangements that are associated with conduit debt obligations. In these types of arrangements, proceeds of the conduit debt are used to construct or acquire capital assets that will be used by the third-party obligors in the course of their activities. Payments from the third-party obligor are used to cover debt service payments and the payment schedule of the arrangement coincides with the debt service repayment schedule. During these arrangements, the title to the capital assets remains with the issuer, and at the end of the arrangement, the title may or may not pass to the third-party obligor. The Statement clarifies that these arrangements should not be reported as leases and provides that issuers should not recognize a conduit debt obligation or a receivable for the payments related to the arrangement. Additionally, the Statement provides that in an arrangement where the issuer:

- Relinquishes the title at the end of the arrangement, the issuer should not recognize a capital asset.
- Retains the title and the third-party obligor has exclusive use of the entire capital asset during the arrangement, the issuer should recognize a capital asset at acquisition value and an inflow of resources when the arrangement ends.
- Retains title and the third-party obligor has exclusive use of portions of the capital asset, the issuer should recognize the entire capital asset at acquisition value and a deferred inflow of resources at the inception of the arrangement. The deferred inflow of resources should be reduced, and an inflow of resources should be recognized in a systematic and rational manner over the term of the arrangement.

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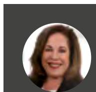
The Statement has also enhanced conduit debt note disclosures by requiring the issuer to disclose a general description of their conduit debt obligations, commitments and the aggregate outstanding principal amount of all conduit debt obligations that share the same type of commitments at the end of the reporting period. If the issuer has recognized a liability, disclosures should also include information about the amount recognized, changes in the liability during the reporting period, cumulative payments made on the liability and any amounts expected to be recovered from those payments.



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DON'T TURN YOUR BACK ON CECL

By Amy Guerra, CPA

As calendar year end nonprofits have worked through the implementation of Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* and turned their attention to implementing ASU 2014-09, *Revenue Recognition,* it's important they don't turn their back on another ASU.

ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,* was issued in June 2016 and, at first pass, many nonprofits may glance over this standard, thinking there is no implication for them—but that's certainly not true. When credit losses and current expected credit losses (CECL) are mentioned, most people think of financial institutions. While the new CECL model will impact financial institutions, nonprofits also fall within the scope of ASU 2016-13. Trade and financing receivables, including program-related investments, are two financial instruments common to nonprofits that will be impacted.

INCURRED LOSS MODEL

Under current generally accepted accounting principles (GAAP), most nonprofits follow the incurred loss methodology, which is based on historical losses. A loss is recorded only after a loss event has occurred or is probable. That is, an allowance is booked in anticipation of future losses based on historical events.

EXPECTED LOSS MODEL

ASU 2016-13 replaces the model based on historical events with the CECL model, which is an expected loss model. Nonprofits will estimate credit losses over the entire contractual term of an instrument. The expected loss model reflects management expectations based on past events, current conditions, and reasonable and supportable facts. At each reporting date, the allowance equals an estimate of all contractual cash flows not expected to be collected over the life of the financial asset. The changes in estimate are a result from, but not limited to, changes in:

- Credit risk of assets held by the nonprofit
- Conditions since previous reporting date
- Reasonable and supporting forecasts about the future

Credit loss estimates under the expected loss model will require significant judgment.

ESTIMATING CREDIT LOSSES

The CECL model gives management flexibility in selecting the most appropriate approach for their organization and the nature of its financial assets. Some possible methods for estimating expected credit losses include:

- Probability of Default/Loss Given Default Method
- Vintage Analysis Method
- Discounted Cash Flow Method
- Loss Rate Method

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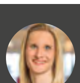
CECL

The new guidance does not set a threshold for recognition of an impairment allowance. Nonprofits need to measure expected credit losses for all financial assets, including those with a low risk of loss. Under GAAP, trade receivables which are current or not yet due may not require a reserve allowance but could now have an allowance for expected losses under ASU 2016-13.

EFFECTIVE DATE AND FOLLOW UP

The current effective date for ASU 2016-13 is for fiscal years beginning after December 15, 2020. On Aug. 15, 2019 the FASB issued a proposed Accounting Standards Update (ASU) to extend the effective date of ASU 2016-13 (among other ASUs—see related article on this page). The FASB has proposed a two-bucket approach to stagger the effective date for ASU 2016-13. All nonprofits, including those that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market are included in bucket two. ASU 2016-13 would be effective for all entities classified in bucket two for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption will continue to be permitted. The comment period on the proposed ASU will end on September 16, 2019.

Until the final effective date is announced, acknowledging ASU 2016-13 applies and becoming familiar with the impact is the most important thing a nonprofit can do relating to CECL.



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FASB PROPOSES DELAYED EFFECTIVE DATES OF CERTAIN STANDARDS

By Tammy Ricciardella, CPA

On Aug. 15, 2019, the Financial Accounting Standards Board (FASB) issued an exposure draft that would grant private companies and nonprofit organizations additional time to implement FASB standards. Comments on the exposure draft are due by Sept. 16, 2019.

The exposure draft describes a new FASB philosophy that extends and simplifies how effective dates for major standards would be staggered using a two-bucket approach. Bucket one would be only Securities and Exchange Commission (SEC) filers. Bucket two would encompass all other entities, including all nonprofit organizations, as well as nonprofit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market.

Under the proposed philosophy, a major standard would be effective for larger public companies first. For all other entities, FASB would establish an effective date that would be staggered at least two years later. Early adoption would still be permitted for all entities.

FASB is proposing that the two-bucket approach be applied to the effective dates of the following Accounting Standards Updates (ASU) if they have not yet been adopted by entities:

1. ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (Credit Losses)
2. ASU 2016-02, *Leases (Topic 842)* (Leases)

Under the proposal, the effective dates of the aforementioned standards would be as follows for entities with calendar year ends:

Credit Losses:

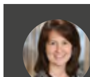
- Fiscal years beginning after Dec. 15, 2022 for all nonprofit entities.

Leases:

- Fiscal years beginning after Dec. 15, 2018 for nonprofit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market. These nonprofits are still in bucket one because the Leases standard as currently written is effective for these types of entities.
- For all other nonprofit entities, Leases will be effective for fiscal years beginning after Dec. 15, 2020.

The effective dates for entities with fiscal year ends would be the first year that begins after the dates noted above.

The FASB believes that the proposed change in establishing effective dates for standards will permit smaller stakeholders to have additional time to implement major standards.



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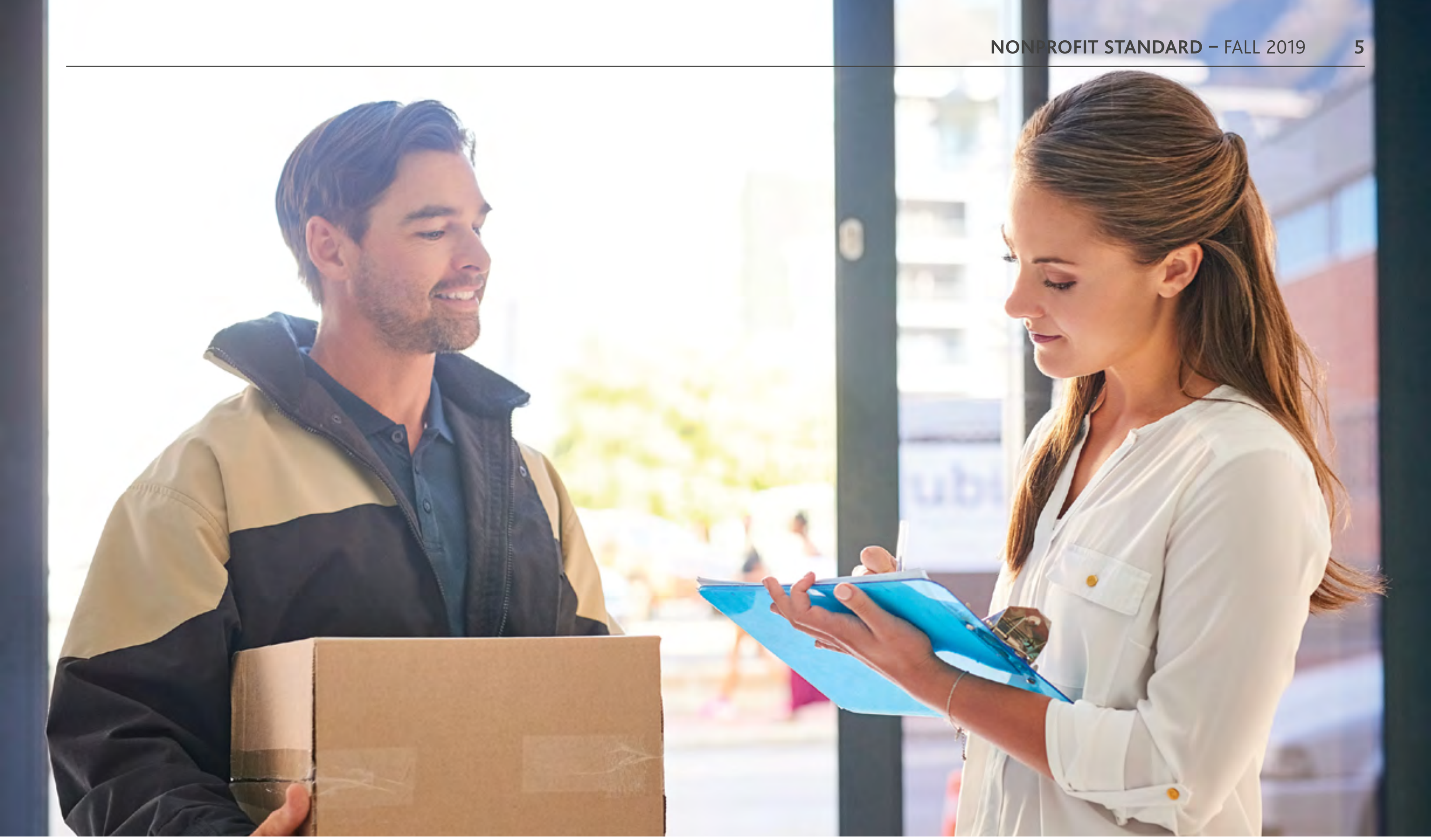

1 YEAR AFTER *WAYFAIR*: WHAT NONPROFITS NEED TO KNOW

By Marc Berger, CPA, JD, LLM and Katherine Gauntt

It's been more than a year since the Supreme Court announced the landmark decision in the *South Dakota v. Wayfair* case, opening the door for states to require organizations to collect and remit sales tax even if the organization has no in-state physical presence. The impact of the decision has proven to be far-reaching.

Since that time, organizations selling goods and services across state lines, including nonprofits, have had to navigate the fallout. While we covered this decision in depth earlier this year, it's important as we mark the one-year anniversary of *Wayfair*, to take a look at what's changed and what challenges may still be on the horizon for nonprofits.

THE *WAYFAIR* DOMINO EFFECT

Prior to the *Wayfair* decision, most nonprofits selling goods and services didn't have a physical presence in states beyond their home states and, thus, did not collect sales tax.

But the *Wayfair* decision had a domino effect: States began adding or revising statutory language to accommodate an economic nexus standard for remote sellers. Several states already had laws on the books that automatically went into effect following the decision. As of this article's publication, all but three states (Florida, Kansas and Missouri) have enacted economic nexus rules. Organizations selling things like promotional items, event tickets or other goods or services are likely affected in some way.

Each state has differing economic thresholds that require organizations to collect sales taxes, and the deadlines for compliance vary state-by-state as well. Even if no tax is collected, the requirement to file a return remains. This patchwork of regulations and deadlines may leave many nonprofits struggling to understand where their obligations lie, and how quickly they need to address them.

Complicating matters, the state thresholds vary in terms of dollar amount and number of transactions required to trigger economic nexus and the deadlines to comply also vary. For nonprofits, knowing where and when they're required to administer sales tax is often half the battle.

For up-to-date information on state thresholds and effective dates, check out our interactive ***Wayfair* map**.

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1 YEAR AFTER *WAYFAIR*

AUTOMATION OFFERS A POTENTIAL SOLUTION

One possible option for monitoring the thousands of shifting tax rates that may apply in a post-*Wayfair* world is the use of automated software that monitors these changes in real time. Automated software solutions offer several benefits, including:

- Tracking tens of thousands of tax rates in real time
- Access to taxability information to determine how products and services are taxed in various jurisdictions
- A history of transaction data that can be used to compile tax returns and provide a single source of information in the event of a sales tax audit
- Assistance with managing exemption certificates for tax-exempt sales

For nonprofits, which typically have fewer resources than for-profit companies, a full-service automated solution might seem out of reach. However, there are many simple products that offer basic services—such as tax rate tracking—at a lower cost. Ultimately, while there are costs associated with these services, they may be eclipsed by the administrative and resource burden that comes with keeping pace with constant change without them.

For more information about how automation can assist with *Wayfair* compliance, read our recent **Insight**.

MARKETPLACE FACILITATOR LAWS, THE NEXT FRONTIER

While *Wayfair* had obvious effects on the e-commerce sector, its impact also extends to the middlemen of retail sales transactions. New sales tax laws are now requiring marketplace facilitators—third-party entities that facilitate sales, such as Amazon—to collect and remit sales and use taxes on behalf of retailers. These laws help to substantially reduce the number of remote sellers that state tax authorities may seek to audit. We expect nearly all states will enact marketplace facilitator tax laws soon.

By nature, marketplace facilitators don't have intimate knowledge of the goods or services being sold as the retailers themselves do. This lack of familiarity could result in a fair amount of under-collected sales tax if these sales are not properly accounted for or mapped to the correct taxability classification. This under-collecting is compounded by the fact that there is a lack of regulatory clarity around who should ultimately be responsible for the correct amount of sales taxes collected and reported to the taxing agencies, whether it's the retailer or the company facilitating the sale.

While nonprofits might not seem like marketplace facilitators, there is still a lot of confusion about what constitutes a dealer or seller under these laws. It is possible that nonprofits that maintain online marketplaces or facilitate online auctions could be considered facilitators. With so much up in the air regarding these laws, it's critical that organizations keep a close eye on the latest developments in any state where they do business.

DON'T FORGET PURCHASING EXEMPTIONS

While much of the commentary around *Wayfair* has focused on selling, it highlights the importance of purchasing considerations, as well. As sellers begin to increasingly collect sales tax on purchases, nonprofits should be sure to understand and maximize any exemptions they qualify for due to their nonprofit status.

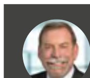
While the details vary, many states exempt nonprofits from paying sales tax on purchases if they are made exclusively for charitable purposes. According to the National Council of Nonprofits, more than half of U.S. states give broad sales tax exemptions for purchases by nonprofits, and an additional 15 states allow limited exemptions by certain types of nonprofits or specific organizations.

For nonprofits to take advantage of these exemptions, they need to keep track of where they exist, and work with their vendors to ensure they either do not pay sales tax on purchases or receive sales tax credits on applicable purchases. Ideally, every time an organization begins to work with a new vendor, they should determine if the purchase is exempt from sales tax and provide the vendor with applicable exemption certificates. It's also important to note that some types of nonprofit organizations, like associations, generally don't qualify for these exemptions.

When *Wayfair* was first decided, many nonprofits assumed they wouldn't be affected, but in the year since have had to come to the realization they may be responsible for collecting and remitting sales taxes in states where they have economic nexus. While this has created concerns about the administrative burden nonprofits might face to stay *Wayfair*-compliant, it's important to remember that sales tax is ultimately a cost to the buyer, not the nonprofit seller. That is, of course, provided the nonprofit is compliant. If they fail to collect and remit the sales tax, there could be an actual liability in the form of an audit assessment to the organization.

As the impact of *Wayfair* continues to unfold, it's crucial that nonprofits stay up to date on the latest developments and take proactive steps to get—and stay—compliant.

Adapted from article in the Nonprofit Standard blog.



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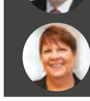

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MAXIMIZING GOOD: 3 STEPS TO MEETING YOUR NONPROFIT'S POTENTIAL

By Laurie De Armond, CPA, and Adam B. Cole, CPA

All nonprofits want to do good. Helping their constituents and driving impactful, positive change in communities is what propels their mission forward. Whether they're on a quest to combat social injustice, poverty or climate change, nonprofits play a vital role in keeping our society moving forward. And yet, noble intentions are not enough for nonprofits to effectively fulfill their intended goals.

So, how can nonprofits successfully maximize good?

The answer can be borrowed from a classic adage: "Charity begins at home." Just as a doctor cannot take care of others if he himself is ill, organizations cannot help their constituents if they're unable to manage their own operations effectively and sustainably. As mentioned in our insight, "**The Business of Impact**," nonprofits must balance good intentions with a business mindset.

This begins with learning how to balance external and internal needs. Too often, nonprofits, in a quest to save the world, fail to save themselves.

By taking these steps, nonprofits are poised to maximize their impact.

STEP 1: BALANCE PROGRAMMATIC & OPERATIONAL INVESTMENTS

Donor pressure may dictate high programmatic spending, but nonprofits must realize that underfunding overhead costs is dangerous and, ultimately, unsustainable. There are critical areas all nonprofits should keep in mind when making strategic spending choices, including:

Talent Management: Nonprofits need to support the people behind their mission and invest in recruiting and retention. Our ***Nonprofit Standards*** benchmarking survey found that keeping employees satisfied is a challenging task, with most respondents citing issues like compensation, technology, and training and development. By regularly reassessing the processes, programs and structures in place, nonprofits can understand what motivates—or demotivates—their employees.

Governance and Compliance: Nonprofits should think of good governance as an imperative, not simply a nice-to-have. Even with limited resources, they must take a proactive approach to regulatory compliance and risk mitigation. Earmarking funds to cover compliance costs may be painful initially, but the costs of *non*compliance are even greater.

Technology, Equipment and Supplies: In addition to jeopardizing employee satisfaction, having outdated IT and equipment can drain already-limited resources by reinforcing operational inefficiencies, weakening impact reporting (58 percent of ***Nonprofit Standards*** survey participants cite inadequate technology as a barrier to impact reporting), increasing cyber and data privacy vulnerabilities and more. Nonprofits should invest in technology that can help them advance a larger goal—whether it's empowering their employees to accomplish more,

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MAXIMIZING GOOD

making their programs more accessible or amplifying their current fundraising efforts.

Cybersecurity and Data Privacy: Nonprofits must safeguard the data they possess, regardless of where it originated. Unfortunately, many fail to invest in cyber or data privacy programs, due to the assumption that they're too small to be a viable target. However, this often makes them even *more* appealing and vulnerable to cyber attackers. Security needs to remain a key priority, even amid multiple projects.

Fundraising: Many investments in this category fall into similar buckets as those outlined above, especially people and technology. Whether it's spending money to hire and train a fundraising team or purchasing new fundraising tools that can expand an organization's reach, putting aside funds to improve visibility will pay off in the long run.

Balancing programmatic and operational spending isn't easy and requires organizations to assess their operations with a critical business mindset. Altruism without an efficient infrastructure to support it won't go far.

STEP 2: EMPHASIZE FINANCIAL DUE DILIGENCE

Financial due diligence for nonprofits extends beyond having enough liquidity to function effectively and investing with self-care in mind—it's also managing finances with the same level of dedication as a for-profit business.

Maintain Sufficient Operating Reserves

When organizations encounter funding disruptions or lose a major donor, a healthy supply of operating reserves (liquid, unrestricted net assets) is a critical fiscal safety net to keep programs up and running.

The "right" amount of operating reserves varies according to organization size, sector and scope. However, establishing at least six months of operating reserves is a prudent target for the sector overall. More than half (51 percent) of organizations in ***Nonprofit Standards*** fall short of that goal.

Nonprofits should consider adopting a "reserve policy" (if they don't already have one) based on a comprehensive risk analysis. This policy should provide guidance on how (and how much) money they should put into their reserves, under what circumstances the reserves should be used, as well any other restrictions or limitations that ought to be considered. Having a few months' worth of operating funds can at least help nonprofits continue their programs if they're facing revenue interruptions.

Stay Abreast of Regulatory, Tax & Financial Accounting Changes

Not only are legislative financial changes required, they also affect how nonprofits document their donations and financial statements to their stakeholders—including their board, donors, constituents and the general public. This, consequently, affects how the latter will assess an organization's financial health.

When undergoing the compliance process, nonprofit leaders should be prepared to address any questions about how these changes affected their financial statements. Maximizing good requires organizations to not only mitigate compliance risk, but also to be able to clearly explain all facets of their financial situation.

STEP 3: INSPIRE & MAINTAIN TRUST

Donor and stakeholder needs and expectations are ever-evolving. Clear, frequent and open communication, on their terms, is essential to getting the support you need to accomplish your mission.

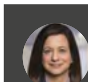
This is especially true now that the profile of the average donor is changing. Millennials currently make up the largest portion of the overall population and have begun to take on a key role in philanthropy worldwide. These donors differ significantly from their predecessors: They not only place a huge emphasis on trust, but also expect faster reporting times, thanks to social media and other technologies.

With such close scrutiny upon them, nonprofits need to get better at not only measuring impact, but reporting it. According to ***Nonprofit Standards***, many are under increased pressure to demonstrate results and provide further transparency: 61 percent say that some portion of their funders have required more information than was previously required.

Nonprofits will need to go beyond traditional reporting tactics to meet donors on their turf and on their real-time timeline.

When impact reporting is effective, it really pays off—not only in donations, but in a currency much more valuable long term: loyalty and trust.

Adapted from article in the Nonprofit Standard blog.



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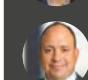

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CHALLENGES WITH GIFTS-IN-KIND

By Tammy Ricciardella, CPA

Many nonprofit organizations receive a variety of gifts-in-kind (GIK) that provide them with resources to supplement their programming.

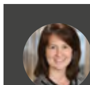
GIK represent a wide variety of non-cash items donated to nonprofits. Nonprofits must follow Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, to account for the GIK. This means that GIK must be recorded at fair value which is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." This creates difficulties for many entities since they receive the goods as a contribution and not a market participant. This creates the question of how to value the items received. The entity must assess what market they would use if they were to sell the donated goods. This assessment must be performed in the process of determining the fair value even though the entity has no plans to actually sell the donated goods. Would the goods be sold in an exit market as a retailer, wholesaler or manufacturer, or in some other market? Once the market is determined, there can still be complications if the entity doesn't have access to the valuation inputs in that market. The entity may have to use the inputs available to them to assess the fair value and then make an adjustment to the market they chose.

These are all complications faced by entities who receive GIK as they may not have prior transactions or the market experience to use as a resource for the fair value inputs. Under the ASC, entities must distinguish between the principal market and the distribution market. The principal market is defined as "the market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability." Based on this definition, the actual location in which the donated goods may be distributed at no cost is not necessarily the principal market.

Determination of the fair value also has to take into consideration if there are any legal restrictions either on the entity or the donated assets. Asset restrictions may limit the legal sale of GIK to certain markets which would affect the determination of the principal market. Since these legal restrictions on the asset restrictions would be considered by a potential buyer, the entity has to take this into account in the fair value assessment.

It is important to note that the value assigned by the donor of the goods may not relate to the principal exit market of the nonprofit. In addition, the donor's tax values are not equivalent to the fair value under accounting principles generally accepted in the United States. In many cases, the nonprofit will not have access to the same market as the donor. The nonprofit must value the GIK based on the principal exit market from their perspective.

To assist in addressing these complications, entities should have a documented policy on accepting GIK and a policy on how the fair value assessments will be performed. The determination of fair value for each type of GIK received should be clearly documented, including management's assessments and factors considered and the final conclusion reached.



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GIFT ACCEPTANCE POLICY

By Tammy Ricciardella, CPA

Many nonprofits receive contributions of both cash and non-cash gifts and are often hesitant to refuse any donations offered. However, there are certain non-cash gifts that can cause issues and at times even cost the nonprofit money.

To prevent these situations, nonprofits should have a gift acceptance policy to standardize this process and ensure that only gifts that benefit the organization will be accepted.

Nonprofits should address the following considerations in developing a formal gift acceptance policy:

What types of assets will the entity consider accepting?
Consider listing the types of gifts that will be accepted, such as cash, publicly traded securities, closely-held business interests, real property, etc.

What is the process for determining whether a gift will be accepted?
Consider and/or determine who on the organization's staff will be responsible for reviewing proposed gifts and when it may be necessary to engage additional expertise such as outside legal counsel or appraisers. Determine if the entity should establish a gift acceptance committee if it has a large volume of gifts.

What information is needed prior to final acceptance of a gift?
Consider documenting what due diligence is required for each type of donated property prior to acceptance. Establish guidelines for when qualified appraisals, environmental analyses, etc. are required for specific property types.

What are the timelines for the liquidation of illiquid gifts?
Establish a definition of a holding period for an illiquid gift. Establish policies to assess if there will be costs incurred during the holding period, as well as policies to address the expectations of donors if the illiquid asset cannot be liquidated in the original projected holding period.

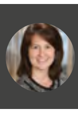
What gifts will the entity not accept?
Clearly identity any donated assets an entity is not willing to accept.

How will the organization handle donor tax questions?
Consider clearly documenting a policy that encourages donors to obtain tax guidance from their own professional advisers. Nonprofits should avoid giving tax advice to donors.

Will the entity encounter additional work or costs related to an unusual gift or unusual gift restriction?
Establish a policy to assess whether additional time or funds will be incurred prior to the acceptance of a donation. Consider whether these unusual items enhance programs of the entity. Consider whether the entity needs to establish a minimum gift amount or whether these types of gifts should be included in the list of items that will not be accepted.

What is the gift acknowledgment process?
Establish a clear policy for the issuance of gift acknowledgment letters. Ensure these are drafted and reviewed by appropriate tax personnel to ensure all IRS guidelines have been met from both the organization's and donor's perspectives.

Having a clearly defined gift acceptance policy can help protect an organization against risks and unexpected costs and provide guidelines for board members or management to determine when it is appropriate to decline a donation. The main focus of a gift acceptance policy is to ensure donated gifts assist the organization in achieving its mission and do not detract from this focus.



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TECHNICAL CORRECTION

In the article "IRS Answers Many Questions on New 21% Executive Compensation Tax" included in the Spring 2019 Nonprofit Standard there is a correction to the example for the calendar year tax liability paragraph. In the example given, to avoid penalties and interest, the employer should remit any tax owed by filing IRS Form 4720 on or before Nov. 15, 2019 which is the 15th day of the 5th month after the entity's fiscal year end.

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