



NONPROFIT NAVIGATOR

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ABOUT US

Our not-for-profit niche at Henry & Horne, LLP was officially formed 28 years ago, but we have been serving the not-for-profit community since we opened our doors in 1957.

We are dedicated to Arizona's nonprofit community, and as a local firm with such a long history, we truly understand what is important to our nonprofit clients. Our team members receive quality continuing education specifically in nonprofit topics and are continually researching various nonprofit issues, which results in a very broad level of nonprofit expertise.



Recording Donated Services: Ten Points You May Not Know

By Colette Kamps, CPA

You may know the criteria that need to be met in order to record donated services as revenue, but there are a variety of real world situations where there could be questions on the application of these criteria. Here are 10 points you may not know about recording donated services.

- Donated advertising space, donated radio air time and internet hosting are not donated services. Instead, they are actually considered to be donated goods, as these are not personal services.
- Non-professional services donated to help with the construction of a facility are required to be recognized as contributions at fair value. This is true for any services that enhance a nonfinancial asset.
- One of the criteria to be met to recognize the value of donated services (other than when creating nonfinancial assets) is that they must be “specialized skills”. Some of the indicators of this are: the individual has some kind of license or certification, the skills require technical equipment, or the individual has a specific artistic talent.
- Sometimes individuals receive training from a nonprofit organization to provide a specific volunteer service for the organization. Generally, the fact that they received this training does not mean that these individuals have “specialized skills” and the value of the services would not be recorded.
- Another one of the criteria to be met is that the organization would otherwise need to purchase the services if they were not donated. Indicators that this is the case include: the services are an important part of the program activities of the organization, the services are needed to meet administrative responsibilities, volunteers may be taking the place of employees, and/or the types of services being donated are also sometimes purchased when volunteers are not available. An example is when a doctor volunteers her time to a nonprofit organization. The organization needs to consider if they would pay for the services of a doctor if the individual did not volunteer. Or, would they instead find an alternative solution?
- It may not be appropriate to record the value of donated services received at the standard hourly bill rate of the professional who donated the services. The value should represent the amount that would have been charged to the nonprofit in similar circumstances.
- Board member services should not be recognized as revenue for their time related to board responsibilities.
- The value of all services received from personnel of an affiliate organization should be recognized as revenue. An affiliate is a party that controls, is controlled by, or is under common control with an entity.
- A promise to give services should only be recorded if it is truly unconditional. In other words, it would generally not be recorded if promised to be performed by an individual who may not actually be available in the future to perform that service.
- When donated services are recorded, there is a requirement that disclosures include a description of the programs/activities for which the services were used.

Determining whether or not to record donations of services requires the consideration of various factors in order to adequately meet the required criteria.

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COORDINATES

The Chronicle of Philanthropy's ranking of the 50 donors who give the most to charitable causes shows that the wealthy contributed \$7.7 billion last year. That's four percent more than in 2012.

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According to CNBC, if you were one of the millions of people who re-tweeted the celebrity packed "selfie" photo (featuring Brad Pitt, Julia Roberts, Meryl Streep and more) taken by host Ellen DeGeneres at the 2014 Oscars, you helped raise \$3 million for the Humane Society and St. Jude Children's Research Hospital. The picture was taken with a Samsung Galaxy phone, and Samsung announced it would be donating \$1.5 million to each organization.

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The Second Annual Arizona Gives Day will take place on April 9, 2014. The one day event is a collaboration between the Alliance of Arizona Nonprofits and the Arizona Grantmakers Forum. Nonprofits must register with the alliance in order to participate. The 2013 Arizona Gives Day raised \$928,000 in just 24 hours for local nonprofit organizations.



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Should My Nonprofit Form an Audit Committee?

By Sharlynn Garza, CPA

An audit committee is a group of individuals appointed by the board of directors to provide oversight for the organization's independent audit. The committee oversees the whole audit process which includes selecting the external auditor, preparing the organization's staff for the audit process, monitoring the process, discussing the results and recommendations by the auditors, and communicating those recommendations to the board of directors. It is also their responsibility to consider the recommendations of the auditors and determine whether any changes to the organization's policies and procedures should be made based on the auditor's findings and to ensure these changes have been implemented.

The committee is not typically involved in the organization's daily routine accounting activities but they must have a good understanding of the operations of the organization. They should know the financial reporting practices of the organization and understand the internal control processes to ensure they are adequate. This knowledge and understanding is needed especially when considering the auditor's recommendations and whether they should be made.

To provide a structure of accountability, there needs to be some oversight with the audit process; however, setting up an audit committee is not mandatory. This oversight can be performed by the board, the executive committee or the finance committee, depending on the size and structure of the organization.

If your organization is considering putting together an audit committee, some things to consider are:

- **Size** – There should be around three to five members (according to the AICPA). However, keep in mind that each state is different and some states have certain requirements with regard to the make-up of the committee.
- **Independence** – All members must be independent of the organization. This means the member should not be engaged to do any business with the organization. It also means that a member of the committee should not include individuals employed by the organization.
- **Members** – Ideally, it would be great if all members are "financially literate". However, this is typically hard to find for organizations. With that said, at least one member should have financial expertise and understand the accounting standards that are applicable to non-profit organizations. Another thing to consider is whether board members can be part of the audit committee or whether the committee is to be made up of separate individuals.
- **Frequency** – Committees don't need to meet monthly. Most committees are set up to meet as needed, with at least two meetings a year – one meeting at the start of the audit process and one meeting at the end of the process. Some committees will set meetings during the year to follow up on recommendations made from the prior audit and to ensure that any approved changes to procedures have been implemented.

Whether or not your organization should set up an audit committee depends on your organization. Smaller organizations may find it difficult to find the needed members to create a separate committee, and therefore, must appoint the executive committee or even the full board with the responsibility to oversee the audit. Larger organizations may have the means to appoint outside members to the audit committee. Regardless of the organization's size, if it receives an audit, the idea of an audit committee and how it could work for your organization is one topic worth considering.

If you have any questions Sharlynn can be reached at (480) 839-4900 or SharlynnG@hhcpa.com.