



NONPROFIT NAVIGATOR

Summer 2012

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.



Social Enterprise in Nonprofits

By Colette Kamps, CPA

According to Wikipedia, **social enterprise** is an organization that applies commercial strategies to maximize improvements in human and environmental well-being, rather than maximizing profits for external shareholders. Many nonprofit organizations are involved in social enterprise by operating various “businesses” such as restaurants, shredding companies, T-shirt shops, janitorial services, etc. For-profit entities also may be involved in social enterprise by getting involved in the opposite way, by incorporating a social service element to their business activities.

When nonprofit organizations do become involved in businesses such as these, the question of taxability comes up. Is the net income from a business activity taxable to the nonprofit organization? Let's look at two scenarios...

Nonprofit Organization A's (NPA) mission is to improve the quality of life for developmentally disabled individuals and to help them achieve social and economic independence. They decide to purchase a delicatessen where their clients will work to learn job skills and social skills. They expect to break even financially with the business.

Nonprofit Organization B's (NPB) mission is the same as NPA. Over the last couple of years, NPB has lost several large grants and they need new funding to continue to serve the same number of clients. They also decide to purchase a delicatessen. Their clients will work there and learn job and social skills. However, the primary intent is that this deli will be a new revenue source to replace the lost revenue.

NPA and NPB are both social enterprises. Is the net income from the deli for both NPA and NPB taxable? Is it non-taxable for both? Is it taxable for NPB, but not for NPA?

In general, for income to be taxable to a tax exempt organization (UBIT), it generally has to be a regularly carried on business type of activity and substantially unrelated to the organization's purpose. It may seem very clear that job skills training fits into both the example organizations' purposes quite well, but the vast realm of unrelated taxable income issues requires various other considerations beyond the basic definition of UBIT in determining if the income is taxable or not. So, my answer to the questions about taxability for NPA and NPB above is “it depends”, as you would probably expect to hear from most accounting, tax and legal professionals. Many more questions would need to be asked to obtain a complete picture of the operations of the business activity. So the point is that these situations are definitely not black and white, and professionals should be consulted during the planning stages to determine the right structure before the first dollar is earned and framed.

If you have any questions Colette can be reached at (480) 483-1170 or ColetteK@hhcpa.com.



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COORDINATES

Due to negative returns on invested capital, the Nobel Foundation recently announced a 20% reduction in the 2012 Nobel Peace Prize. According to the Foundation, this decision was made in order to ensure that “the prize sum can be maintained at a high level in the long term.” The last time the Nobel Foundation lowered the amount of the prize was in 1949.

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According to the 2012 Millennial Impact Report, 77% of Millennials surveyed (ages 20 – 35) were interested in nonprofit leadership involvement but only 20% were currently serving on a board. Their top two reasons for not getting involved were lack of time (62%) and not being asked to participate (40%).

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While many philanthropists generously give temporarily and permanently restricted contributions to not-for-profit organizations, Apple co-founder Steve Wozniak recently announced at the AFP TechKnow conference that he only plans to give unrestricted gifts to charity.



Strategic Planning is Essential When Recruiting Potential Board Members

By Jessica Puckett, CPA

As an auditor of not-for-profit organizations, I have dealt with all shapes and sizes of boards of directors. I’ve observed how much a board is capable of accomplishing in board areas including overall vision, oversight, operations, and fundraising. Unfortunately, I’ve also seen what can happen when a board operates inefficiently, ineffectively, or sometimes almost not at all. Just as no two not-for-profits are the same, neither are the boards that govern those organizations. However, the keys to effective board governance are as simple as finding a good fit in potential and current board members and making sure everyone understands their role within the organization. In theory, I was able to use the word “simple” to describe those keys because I could summarize them into one brief sentence. In practice, it’s not that easy. “Finding a good fit” means knowing who you are and what you’re looking for in a board member.

Most board members volunteer their time and talents because they believe in the mission and good work carried out by the organization, especially one with a strong strategic plan. Strategic planning is how an organization defines where it wants to go, how it’s going to get there, and how it will know when it does. It paints a clear picture of future goals and objectives. If you can’t articulate your strategic plan, chances are you’re showing prospective new board members a hazy picture of where they’ll fit into it.

Board members wear many different hats when it comes to governance, including performing essential fiduciary duties, monitoring activities, ensuring adequate resources exist and overseeing staff – and they often do this in an ever-evolving environment of change. Finding people whose own skill sets align with these activities and the rest of the organization can mean the difference between just doing those jobs and doing those jobs well. Again, this is where your strategic plan becomes so important. Perhaps you’re about expanding to a new location or buying a building over the next three years? In that case, a board member with real-estate knowledge could be valuable. If you’re contemplating a new special fundraising event, event planning connections would be helpful. Is your organization full of passionate program people, but no one to review the financial statements each month? You might identify the need for someone with accounting and finance sophistication.

With a strong strategic vision in place and a completed evaluation of the types of board members that would be an asset to your organization, searching for candidates can take place in many different forms. Seeking out new board members who possess the right skills might mean consulting with current board members to see if they know of someone who fits the bill. Perhaps you have some passionate volunteers who might transition nicely to the board? Networking with other not-for-profits might identify potential candidates for you to consider, or you could ask your professional advisors if they have any recommendations. Regardless, recruiting board members with your strategic plan in mind becomes a more thoughtful process than just looking for warm bodies to fill seats.

If you have any questions Jessica can be reached at (480) 483-1170 or JessicaP@hccpa.com.



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