

GREENWALT CPAs

Dear Clients and Colleagues:

Nonprofit organizations often consider borrowing money only as a last resort. But three different kinds of loans may make going to the bank the right answer. And nonprofits can benefit by educating their board members on their proper role vis-à-vis employees.

Greenwalt CPAs, Inc. is pleased to present the February/March 2010 issue of *Nonprofit Agendas*. In it, we discuss those and other topics related to helping you run your nonprofit more effectively and efficiently. Specifically, we discuss the four requirements for an "accountable plan," in which certain expense reimbursements are not taxable. In addition, we discuss the new FASB guidance on mergers and acquisitions for nonprofit entities, and take a brief look at executive compensation in the not-for-profit world.

Our firm has recently changed our name and updated our logo. We have included an attachment that discusses our new "look."

Our firm excels at providing tax, accounting and business consulting services for nonprofit organizations. We would welcome your questions or comments about the topics discussed or others related to successfully managing your tax-exempt organization, so we invite you to call us at 317-241-2999 to discuss your needs. Greenwalt CPAs, Inc. would be glad to assist you in any way we can.

Very truly yours,

GREENWALT CPAS, INC.

By Anita Sherman
Anita W. Sherman, CPA

By Amanda Meko
Amanda J. Meko, CPA

Enclosures

NEW NAME, SAME FIRM

Our GS&Co logo and name have served us well for the last 26 years, but we concluded that it is time for an update. We wanted our updated image to be unique, while retaining our heritage of almost 65 years of service. We considered a couple of options, but the Partner's unanimous choice was **Greenwalt CPAs**. Our logo is as follows:

The logo for Greenwalt CPAs features the word "GREENWALT" in a bold, sans-serif font. The letter "E" is stylized with three horizontal bars. To the right of "GREENWALT" is the text "CPAs" in a smaller, lighter font.

Interestingly, "Greenwalt" is how the firm has generally been referred to by our clients, referral sources and recruits, so it was very logical to shorten the name to **Greenwalt CPAs**. The name "Greenwalt" has been used in our firm name since 1980 and our new updated name represents the sixth name iteration over the firm's 65 year history. The Firm's nine management team members expect that it will continue as the firm's name for the next 30 years.

One of the most striking feature of our new logo is the two facing e's, which are symbolic of our strong commitment to "face to face" meetings with clients and others. When you look carefully at the two facing e's you will also discover an = sign. This is symbolic of our recognition that while we bring significant value to our relationships, we are still equal partners in these relationships.

The firm is unique in that we have the depth of resources and personnel of a national firm, while retaining the speed and agility of a local firm. This results from the depth of experience of 50 personnel, with 4 audit partners, 2 tax partners, 2 consulting partners and 1 information technology principal. Another unique attribute normally only found only in national and regional firms, is that we serve our clients through specialized industry and functional teams: Construction, Manufacturing & Distribution, Not for Profit, Professional, Entrepreneurial Services, Employee Benefit Services and Information Technology Services.

We have national and international coverage through our 21 years of membership in CPA Associates International, which affords us an important global reach, access to specialized expertise, training and most importantly—Best Practices. We have 52 North American firms and a total of 144 members in 71 countries throughout the world.

nonprofit agendas

FEBRUARY/MARCH 2010

Getting financing
in today's economy

Being "accountable"
Certain expense reimbursements
not taxable in accountable plans

Board-staff harmony

News for Nonprofits



CPAAI
CPA ASSOCIATES INTERNATIONAL

GREENWALT CPAs

5342 West Vermont Street ■ Indianapolis, Indiana 46224 ■ (317) 241-2999
Member Firm of CPA Associates International, Inc.
www.greenwaltecpas.com

A Leader in Servicing Not-For-Profits in Indiana

Getting financing in today's economy

Nonprofit organizations, large and small, often consider borrowing money only as a last resort. But there are certain times when going to the bank is the right answer.

When cash flows from contributions or program service fees are cyclical, but your expenses are fairly steady throughout the year, consider using a line of credit to help even out your cash flow. When you're planning a major capital addition or a new program that requires significant start-up costs, using debt financing up front may allow you to serve your constituents in a timelier manner.

THE PROCESS

Even before you need the loan, begin building relationships with several local lenders. You may already have bank representatives on your board who can introduce you to the right people.



Before meeting with your loan officer, gather your organization's financial statements and tax returns for the past three years. You'll also need to prove to the bank that you can repay the loan. This will involve developing a cash flow projection that looks forward for three to five years as well as providing any budgets that may have been completed for the building or program that you're requesting financing for.

If tax-exempt bond financing is an option, the process may take longer due to the greater legal requirements in documenting and approving the transaction. While a line of credit or term loan can be approved in a matter of weeks, bond financing can take six months to a year before the papers are signed and the funds received by your organization.

THE CHOICES

The banker that you work with will help you decide which type of loan or debt facility makes the most sense. But there are some general guidelines to follow in determining the loan for which you should apply. The type of loan is usually driven by the underlying cash needs.

A *line of credit* is a negotiated amount of credit that you can draw against as needed. It's usually the best option when the goal is to smooth out cash flows over the year. There are several ways a line of credit differs from a *term loan*, which can be used to finance a specific piece of equipment or a vehicle.

The line-of-credit application process is usually simpler and approval typically takes less time. When you obtain a term loan, you receive a lump sum of money, usually for a specific purchase. With a line of credit, you

Bond options under ARRA

The American Recovery and Reinvestment Act of 2009 (ARRA) offered a series of bond provisions that provide subsidies for some types of issuance, opened new markets to local government issuers, and offered an alternative minimum tax holiday for interest on private-activity bonds. This has opened up the opportunity through 2010 for nonprofits to access more attractive and cost-beneficial tax-exempt financing.

ARRA provides for tax-credit bonds as well as taxable bonds. Traditionally, state and local governments have issued tax-exempt obligations. If a bond issue is in your nonprofit's future, several of the options introduced in ARRA may affect you:

Taxable bond option (Build America Bonds). Issuers can elect to issue either taxable debt and collect a direct 35% subsidy from the Treasury Department or provide a 35% tax credit to investors in place of the traditional indirect subsidy of tax exemption. All of the tax laws applicable to tax-exempt bonds apply to taxable tax-credit governmental bonds. This option has opened up new markets, making the issuance of new bonds easier.

Recovery zone bonds. This category of tax-exempt, private activity bonds has been created for use in "recovery zones": designated areas with significant unemployment, poverty and home foreclosure rates. For nonprofits operating within a recovery zone, this option may provide more access to funds.

Qualified school construction bonds. These bonds may be used to finance new construction, or rehabilitate or repair public school facilities. The bonds can be much harder to take advantage of than the Build America Bonds, as fewer investors are finding them to be an attractive investment.

have a maximum amount of money available to you, but you use only what you need.

If you use all the funds available on your line of credit, you start paying down the principal and that amount will become available to use again.

Even before you need the loan, begin building relationships with several local lenders.

For example, if you're given a line of credit for \$100,000, you may use up to the \$100,000 limit. Once the line has been paid down to \$90,000, you again have \$10,000 available to borrow. You can continue this draw-down and repayment cycle until the term of the line

of credit expires. Also, with a line of credit, monthly payments may be limited to interest expense while principal payments can be made any time when cash flow permits.

With a term loan, repayment is made in installments, which means you'll make equal monthly payments throughout the entire loan term. With a line of credit, you have more flexibility in how much you repay each month. Sometimes, you may only be required to repay the interest.

A *tax-exempt bond* is issued by a municipal, county or state government, whose interest payments aren't subject to federal income tax, and may be exempt from state or local income tax. Tax-exempt bond financing may benefit your organization because tax-exempt interest rates are generally two to three percentage points lower than on money raised from other sources. The Internal Revenue Code allows a nonprofit to use the proceeds, which are borrowed from the

issuer, to further the organization's stated charitable purpose.

The first step in planning a bond issue is to identify which local government unit in your area has the ability to issue bonds on behalf of a not-for-profit. This agency (the issuer) then lends the bond proceeds to you.

The next step is selecting a team of specialists to work out the mechanics of the bond issue, including a bond counsel who will draft the documents and deliver an opinion. An underwriter advises on the bond issue's structure and then buys the bonds from the issuer and offers them to investors.

Tax-exempt bonds make the most sense for larger capital investments. Interest payments over the bond's term can be significantly lower than on a term loan, but up-front legal and other fees can be substantial.

THE NEXT STEP

In the current economy, every nonprofit is faced with strategic decisions that involve managing cash flow. Financing, whether it takes the shape of a line of credit, a term loan or a tax-exempt bond issue, may be the vehicle that allows you to take that next step toward accomplishing your mission. *

Being "accountable"

Certain expense reimbursements not taxable in accountable plans

Do your employees submit monthly expense reports? Do you give certain employees a car or phone allowance for business use of their personal auto or cell phone? If so, you're probably familiar with the term "accountable plan."

Certain expense reimbursements and allowances aren't viewed by the IRS as taxable income to the employee if they're made under an accountable plan. In turn, if these amounts aren't taxable income to the employee, they're not subject to the employer portion of FICA taxes either. There are four requirements for this type of plan:

1. The expenses must have a business connection.
2. The expenses must be reasonable.
3. There must be reasonable accounting for the expenses.



4. All excess reimbursements must be repaid in a reasonable time.

It's important to understand these requirements completely. Further explanation follows.

WHAT QUALIFIES AS A BUSINESS EXPENSE?

The IRS defines business expense as "the costs of carrying on a trade or business." Under the accountable plan rules, your organization can reimburse your employees for the following:

Auto expenses. Did an employee make an out-of-town trip solely on behalf of your organization and drive his or her own car? If so, you should reimburse that employee for every mile driven for your organization's benefit at the standard mileage reimbursement rate of 55 cents per mile. You also can reimburse employees for other expenses they're likely to incur, such as tolls or parking fees.

Travel expenses. Did that employee stay overnight on the trip out of town? If so, you should reimburse the individual for hotel costs and meals.

Other expenses. Reimbursement for a cell phone purchased by an employee for use by the organization also falls into this category, as well as employee-purchased supplies used by the organization.

WHAT MAKES AN EXPENSE "REASONABLE"?

You may wonder how the IRS determines if an expense reimbursement is "reasonable." Here's a straightforward example: Let's say you reimbursed an employee at 70 cents per mile, 15 cents more than the 55-cents-per-mile rate currently allowed by the IRS. The agency would consider that extra 15 cents per mile excessive and treat it as taxable income. Also, an employer can't reimburse the employee *more than* what he or she paid for any business expense.

WHAT'S "REASONABLE ACCOUNTING FOR EXPENSES"?

According to IRS Publication 15, (*Circular E*), *Employer's Tax Guide*, "[The employee] must substantiate these expenses to [the employer] within a reasonable period of time." A receipt is, by far, the most common form of substantiation, or proof, that an expense was incurred. For mileage, the distance from Point A to Point B can be estimated using Internet search engines.

If these amounts aren't taxable income to the employee, they're not subject to the employer portion of FICA taxes either.

The IRS states that "amounts paid up to the allowable federal per diem rates for meals, expenses for incidental expenses and lodging are deemed substantiated, without the usual requirements for keeping records of the expenses with receipts." These per diem rates generally change on an annual basis and can be found in Publication 1542 at irs.gov.

WHAT'S A "REASONABLE TIME" FOR REPAYMENT?

In Publication 15, the IRS notes that "a reasonable period of time depends on the facts and circumstances." Generally speaking, if an employee receives an advance for business expenditures as opposed to paying out-of-pocket first, the IRS imposes the following timeline:

- * The employee receives an advance within 30 days of the time he/she incurs the expenses.
- * The organization receives adequate accounting for the expenses within 60 days after the expenses were paid or incurred by the employee.

- * The employee returns any amounts in excess of expenses within 120 days after the expenses were paid or incurred.

More commonly, an employee may pay for expenses first, and then receive reimbursement from the organization for amounts paid. In this case, the employee would generally need to adequately account for the expense within 60 days after the expenses were paid or incurred.

FOLLOW THE RULES

It's important to keep in mind that amounts paid under an accountable plan aren't wages. As such, they're not subject to normal employee and employer payroll taxes.

So, if you reimburse expenses under an accountable plan, be sure to follow the rules. Otherwise, you and your employee may have an unknown payroll tax liability. If you need more clarification, contact your financial advisor. *

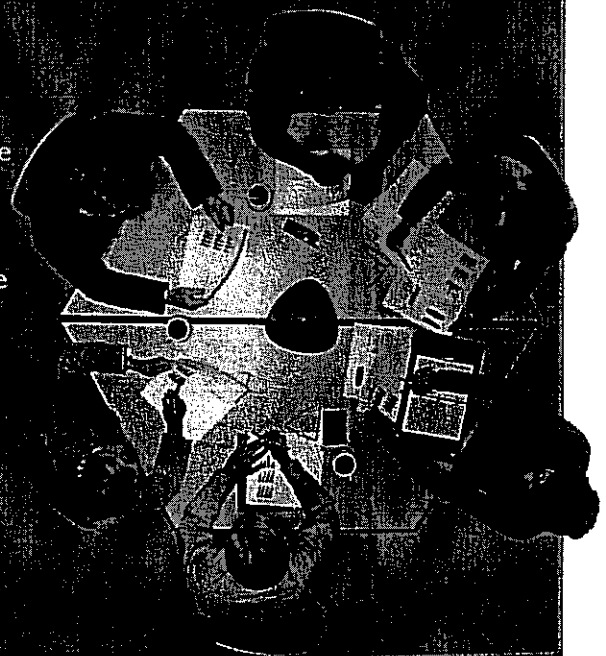
Board-staff harmony

Two planes flying in the same airspace need instruction from the tower to make sure they don't collide. Likewise, you need to give direction to your board (and staff) — about "who does what" — to ensure you both reach your goals without distress. This can be especially important in a small organization. To avoid a collision, make sure your board members:

Receive a thorough orientation. The process will help board members understand their place in the big picture. Distribute a written description of their responsibilities and offer examples that illustrate the scope of their duties — for example, making business contacts in the community, fundraising and so on. Contrast this with staff duties (creating a budget, providing direction to staff, etc.). This will help them distinguish the complementary but separate roles of the board and employees.

Stress R-E-S-P-E-C-T. Staff members are partners with the board, helping it to advance goals and strategies. But board members don't have the authority to direct employees. The staff reports to the executive director (ED), who reports to the board. So, if a board member wants an employee to compile a report, the request should go through the ED, because he or she manages the work flow and knows of any competing priorities. Similarly, board members who have employee-related suggestions should direct them to the ED, not the staff.

Encourage interaction. Board members can become more effective by understanding various employees' roles. Distribute an organization chart, and invite new board members to visit the office and observe key staff members at work. In turn, program managers or other senior staff also might attend board meetings to discuss developments in their areas and answer questions. By having direct interaction with staff, board members can get to know employees and gain insight into your organization's challenges and opportunities.



NEWS FOR NONPROFITS

NEW M&A ACCOUNTING STANDARD KICKS IN

How a nonprofit accounts for, and discloses, mergers and acquisitions (M&A) on its financial statement has changed. Statement of Financial Accounting Standards (SFAS) No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, is effective for such transactions on or after the start of an initial or annual reporting period, beginning on or after Dec. 15, 2009. So, for example, if your nonprofit has a June 30 fiscal year end, you'll need to follow the new standard for transactions on or after July 1, 2010.



Issued by the Financial Accounting Standards Board (FASB) in April 2009, SFAS 164 offers guidance on merger and acquisition accounting and disclosures specifically for nonprofits. When nonprofits combine, SFAS 164 clarifies whether the transaction is considered a merger or an acquisition and which accounting treatment to use.

A "merger" is the ceding of control by the governing bodies of two or more organizations. A new governing board must be newly formed. Using the carryover method of accounting, assets and liabilities are measured at their carrying amounts (not fair value) in the books of the combining entities on the date of the merger.

An "acquisition" is any combination not considered a merger. The acquirer obtains control. Assets and liabilities of the acquired

entity are brought in at their fair value with few exceptions.

SFAS 164 also addresses the treatment of goodwill — a significant move because much of the previous guidance on the goodwill that results from M&As wasn't effective for not-for-profit entities when first issued, including SFAS 142, *Goodwill and Other Intangible Assets*. Assets and liabilities, which are recorded at fair value, might create goodwill.

With the issuance of SFAS 164, these standards must now be applied prospectively to the first set of financial statements for an initial or annual reporting period beginning on or after Dec. 15, 2009. No early adoption is permitted. *

TOP GUN SALARIES

Not all nonprofit executives have taken economic hits during the current downturn. The median compensation for CEOs at the nation's largest nonprofit organizations rose by 7% in 2008, according to a report by *The Chronicle of Philanthropy*. Nearly two-thirds of these 325 large nonprofits either maintained or increased the compensation for their top executives.

On the flip side, almost 30% of top executives at nonprofits took pay cuts, refused raises or bonuses, or froze their compensation in 2008. The average pay cut reported was 10%.

A similar survey of for-profit executives conducted by the *New York Times* by Equilar, an information services firm, reported a drop in compensation of 9% for the top executives in 2008. *



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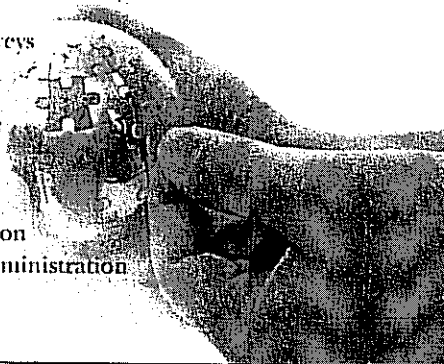
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Greenwalt CPAs — Not-For-Profit Services Group

Greenwalt CPAs is a recognized leader in providing specialized accounting, auditing and tax services along with information technology, human resources and management consulting to not-for-profit organizations in Indiana. Our Not-for-Profit Services Group understands the challenges that face nonprofit organizations today, and as a result of our broad experience and expertise, *we deliver peace of mind!*

Our Specialized Not-For-Profit Services Include:

- Audits, reviews and compilations of financial statements
- OMB Circular A-133 Single Audits and Program Specific Audits
- Implementation of current *best practices* for not-for-profits
- Preparation of federal and multi-state not-for-profit tax returns
- Strategic and organizational planning, including review and development of board governance policies and board orientation
- Board development
- Planned giving consultation
- Budgeting, forecasting and cash flow processes
- Human resource consulting including assistance with set up and administration of employee benefit plans
- Implementation of customized evaluation processes
- Procedure reviews and development of accounting and operations manuals
- Functional cost allocation methods and procedures
- Client training
- Special reporting requirements and surveys
- Tax planning and compliance
- Tax savings strategies
- Exempt status consulting
- Unrelated business income tax issues
- Sales tax issues
- Property tax exemptions and minimization
- Set up of employee benefit plans and administration
- Payroll services
- Interim accounting services

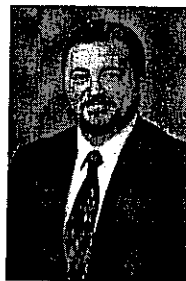


Greenwalt CPAs Technology Services Group

We offer a wide range of technology consulting and implementation services, which help keep your systems efficient and operating smoothly.

Services include:

- Technology system planning and project management
- Network setup / configuration / ongoing maintenance
- Specialized training designed around your needs
- Policy, procedure and disaster recovery documentation
- Website set up / design and E-Commerce solutions
- Accounting software selection, training and implementation assistance
- Help desk troubleshooting and monthly maintenance



Download our *Technology Assessment (PDF file)* to consider new options for your organization's technology.

Rich Wagoner, CPA, CTPP, Principal
317-260-4400 ■ rwagoner@greenwaltcpas.com

Anita W. Sherman, CPA and Senior Partner, Member of the Not-for-Profit Services Group. Anita has significant business and technical experience counseling with our NFP clients and addressing strategic issues.



Anita is a member of the American Institute of Certified Public Accountants and the Indiana CPA Society. She is a past chairperson of the Ethics Committee, Audit and Accounting Committee and during 2008 completed her service as Chairperson and board member of the Indiana CPA Society. In 2009, she was named Outstanding CPA in Public Practice. She currently serves on the Council of the American Institute of Certified Public Accountants.

Contact Anita Sherman, CPA, Senior Partner
317-240-4486 or via email
at asherman@greenwaltcpas.com

Amanda Meko, CPA, Partner and Director of the Firm's Not-for-Profit Services Group. Amanda works exclusively with not-for-profit organizations, providing a variety of services including financial statement audits, audits



performed in accordance with Government Auditing Standards and OMB Circular A-133, and other assurance services, tax services, and best practices implementation. Amanda is the designated audit quality partner for the firm's not-for-profit audit practice.

She currently serves on the Not-for-Profit Committee of CPA Associates International, is a member of the AICPA and Indiana CPA Society. In addition, she also serves on the Volunteers of America Audit Committee, Lutheran Child and Family Services Finance Committee, and the Avon Education Foundation Finance Committee.

Contact Amanda Meko, CPA, Partner
317-260-4436 or via email
at ameko@greenwaltcpas.com