



Capital Campaigns: Accounting and Tax Challenges for Nonprofits

BPM Nonprofit
Industry Group

December 2018

Table of Contents

Introduction.....	1
Planning and Silent Phases	1
Overview	1
Finance Team Involvement	1
Financial Policies	2
Funding Solicitation Considerations	4
Capital Campaign Financing.....	7
Campaign Launch	9
Overview	9
Unconditional Contributions and Pledges.....	9
Unconditional versus Conditional Contributions	10
In-Kind Contributions	11
Other Contribution Considerations	12
Construction Phase	13
Overview	13
What to Capitalize.....	13
Other Reporting Considerations	16
Placed in Service and Stewardship Phases	18
Background.....	18
Placed in Service	18
Ongoing Stewardship and Costs	19
Unrelated Business Income.....	19
Conclusion.....	22
About BPM	23
BPM Nonprofit Industry Group.....	23
Authors.....	23

Introduction

According to a recent survey, nearly 50% of nonprofit executives polled said their organizations had structured campaigns last year, compared with just 20% five years ago.¹ One of the biggest drivers of this statistic is the continual growth of the United States (US) economy in recent years. Total charitable donations rose to a new high of \$390 billion in 2016 and are projected to rise by 3.8% in 2018. Many nonprofits are seizing this opportunity to raise funds through active capital, endowment or comprehensive campaign funds to sustain the organization's activities in future years. While the benefits of such campaigns are evident, the amount of planning, effort, and collaboration necessary to ensure their success is significant. In the excitement of the initial planning process, accounting and tax considerations may be overlooked. However, anticipating and addressing potential tax, accounting policy, and transaction challenges before the campaign is underway will save your organization time and headaches down the road.

The most common tax and accounting pitfalls encountered during a capital campaign involve the following:

- Contribution accounting when donor conditions and restrictions are present
- Proper valuation of long-term pledges
- Valuation and Internal Revenue Service (IRS) filing requirements for gift-in-kind contributions
- Appropriate capitalization of direct and indirect costs related to asset construction
- Impairment of assets held for disposal and recognition of assets held for sale
- Lack of appropriate and specific accounting policies for campaign activities
- Failure to involve finance staff in the planning stages of the campaign
- Recognition and remittance of sales and use tax on acquired assets

This whitepaper addresses these challenges and provides practical tips for implementing valuation techniques and other fair value concepts. The content and views presented in this whitepaper are non-authoritative and are interpretations of US generally accepted accounting standards (GAAP). This publication contains information in summary form and is intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither BPM nor any other member of the BPM firm can accept any responsibility for loss brought to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

¹ "Special Report on Nonprofit Fundraising Campaigns," Nonprofit Research Collaborative, (2015), http://npresearch.org/images/pdf/2015-reports/NRC_Campaigns_S2015.pdf.

1. Planning and Silent Phases

Overview

During the planning phase of a capital campaign, organizations typically determine goals and needs, build a team to manage the campaign, conduct feasibility studies, craft messaging and communications, and gauge donor potential. However, accounting considerations are often overlooked until the accounting close and audit. Considering the accounting and tax implications of a capital campaign from the outset will save time and expense, and may even avert potential problems later on.

Finance Team Involvement

Often, the finance department becomes involved only after the campaign is well under way and contributions begin being received. However, key finance personnel should be included in planning to ensure that the organization's response to the accounting and tax implications of the campaign are proactive rather than reactive.

Finance questions to ask in the planning stages of a capital campaign include:

- How long will the campaign last and what is the projected cash flow need before, during, and after any capital assets are acquired?
- What types of funding are needed and how will the organization solicit it from donors?
- Is bridge financing or other long-term debt needed? Should the interest expense be capitalized?
- What types of in-kind contributions will be solicited?
- Are any donors likely to give through donor-advised funds or private foundations?
- Will the organization recognize any donors through naming rights or other substantial benefits?
- Will assets be disposed?
- Will a portion of the property be subleased?
- Will there be staff dedicated to managing the campaign?
- Asking the right questions in the early stages of the campaign will help your organization avoid many of the pitfalls discussed in the following sections.

Financial Policies

Setting financial policies at the start of a capital campaign will clarify expectations, establish procedures, and avert potential future conflicts with donors, board members, and employees. The following key policies should be developed and implemented in the early stages of the campaign.

Gift Acceptance Policy

A gift acceptance policy establishes criteria and processes for evaluating and accepting (or rejecting) assets and other resources offered by donors. This key policy, regardless of whether a capital campaign is underway, becomes even more critical while in the midst of a capital campaign. During a capital campaign, not only does the volume of donations increase, but so does the complexity of the gifts: An organization may receive more non-cash gifts in the form of stock, property, equipment and tools, and donated services than is typical. The organization may also receive large gifts or unusually complex gifts with creative structures, conditional clauses, and requests for naming rights, or payments through donor-advised funds or private foundations controlled by the donor. These types of donations often require accounting treatments other than what the organization may use for standard pledges and cash gifts. Complex or very large donations will also raise legal and tax issues for both the donor and the donee.

A gift acceptance policy allows management an opportunity to vet these gifts, and

- Determine the applicable accounting treatment
- Identify any associated costs and potential changes in the organization's long-term cash-flow as a result of accepting the gift
- Identify legal liabilities, tax implications, and other risks associated with the gift
- Assessing whether given the costs and risks, the organization should accept or ultimately reject the donation

Of course, an organization may vet a gift without an acceptance policy, but having one helps donors manage expectations about the necessary due diligence the exempt organization will undertake before accepting the gift. A board-ratified gift acceptance policy can also help safeguard the donee-donor relationship in other ways. Gifts of real property and other complex donations often place the donee in conflict of interest with its donors. A gift acceptance policy that strongly suggests the potential donor seek outside counsel before making and structuring a gift of real property can prevent the donor from inappropriately turning to the exempt organization for legal or tax advice. The donee must work with its legal and tax advisors to assess how the gift will affect the organization's exempt status and future tax liabilities.

1. Planning and Silent Phases

Tax Note

A gift acceptance policy allows an organization the opportunity to assess whether a large gift poses a threat to the organization's exempt status. A sufficiently large gift may compromise an exempt organization's ability to meet the applicable public support tests. However, unusual gifts are excluded from the numerator and denominator of public support calculations for exempt organizations other than private foundations. If a large cash or real property gift meets the US tax code definition of unusual, it will not affect the exempt organization's public support tests. There is no bright-line test for determining whether a gift is unusual. Instead, the exempt organization must consider the facts and circumstances of the donation² before accepting the donation:

- **Is the donor a related party?** Gifts from officers, board members, founders, or substantial contributors are most likely not unusual.
- **Did the donee specifically solicit the gift of real property from the donor?** If the gift is a response to the donee's specific request of a specific donor, the gift is not unusual, because it needs to be both unusual and unexpected as to the amount.
- **Was the gift given in response to public support campaigns?** If the gift is from an unrelated party given because of the publicly-supported nature of the organization, the gift may be unusual.

This determination is nuanced. Before accepting a large cash or real property donation, speak with your tax advisor to determine whether the gift will adversely affect the organization's public support tests.

Fixed Asset and Capital Purchase Policies

Having well-communicated, thorough, and detailed policies governing the procurement of capital assets, the disposal of existing assets, and the associated accounting will not only help circumvent asset mismanagement, but will also ensure that the organization's records support the sufficient and accurate reporting of capital campaign activity. Reconstructing correct records several months later during the audit or while preparing tax filings can be expensive, inefficient, or even impossible. Leading up to and during the construction phase, the organization will incur costs to build, lease, or construct new assets and to purchase new equipment, fixtures, and improvements. Old assets will likely be discarded or potentially impaired. The organization's staff should be aware of policies governing how and when to capitalize costs related to newly purchased assets, construction-in-progress, constructed assets, and how and when to account for dispositions and impairments of old assets.

Policies and procedures should be in place to ensure proper oversight over the procurement of assets and services related to construction. A procurement policy, for example, may stipulate that small purchases under a set dollar threshold receive general approval and merely adhere to budget guidelines. However, for larger purchases, procurement policies typically require a bidding process, including the vetting of bidders for necessary qualifications and potential affiliations with related parties.

Conflict of Interest Policy

Capital campaigns invite opportunities for conflicts of interest, such as significant transactions with related parties, including potential contractors, architects, consultants, sellers, buyers, and vendors. A conflict of interest policy ensures that the organization has procedures in place to assess transactions for potential conflicts of interest and to allow for the recusal of implicated decision makers when these conflicts are found. As transactions with related parties and any associated policies may need to be disclosed on the

² *Treasury Regulations*, 1.509(a)-3(c) (3)-(4).

1. Planning and Silent Phases

financial statements and tax filings, it is important that the organization is not only able to identify conflicts of interest, but is also able to describe the procedures in place to provide for impartial decision making in spite of them.

Time Tracking Policy

Capital campaigns require significant human resources. Employees normally engaged in management or program activities may find themselves assuming work related to the campaign. This reallocation of labor costs should be reflected in functional expenses. As some labor costs related to the construction of assets must be capitalized under US GAAP, accurate time tracking has implications for the statement of financial position as well. An organization undertaking any large fundraising campaign will need to ensure that its time tracking system is able to capture these changes. If no time tracking system is in place, periodic time studies or employee surveys may be necessary to accurately track and allocate employee expenses related to the campaign.

Pledge Receivable, Discount, and Allowance Policies

Capital campaigns often attract large, multi-year pledges. These gifts may come with specific restrictions or conditions. Additionally, the credit risk associated with each large pledge will vary depending on the donor profile. This intricacy complicates time value of money and collectability assessments and, thereby, the valuation of pledges receivable. In order to accurately value pledges, organizations undertaking a capital campaign should have policies that require the recognition of pledges at fair value and that provide some means of assessing future collectability.

Funding Solicitation Considerations

One of the most important elements of a successful capital campaign from an accounting and risk mitigation perspective is the proper structuring of the donor solicitation process. As the organization requests and accepts gifts, it must align donor expectations with its own, all while coordinating communication and record keeping between departments within the organization. The solicitation process should establish donor commitment and clearly identify donor intent without sacrificing the organization's flexibility to use funds raised as needed. Campaigns run more smoothly when the organization and donors have a shared understanding of the purpose and use of the requested funds. Similarly, financial reporting runs more smoothly when the development and finance departments have a shared understanding of campaign gift valuation and campaign progress.

Counting Versus Accounting

When it comes to tracking and reporting gifts, the development and finance departments speak different languages. The finance department will generally follow accounting rules prescribed by US GAAP, while the development department may follow gift recognition criteria outlined by the National Association of Charitable Gift Planners,³ the Council for Advancement and Support of Education,⁴ and/or another regulatory body. The development department is often able to count a gift towards the campaign goal well before any or all of it can be *accounted* for as a pledge in accordance with GAAP. Differences between gift amounts for financial reporting purposes and for development purposes frequently stem from the following:

³ National Association of Charitable Gift Planners, *Guidelines for Reporting and Counting Charitable Gifts* (2nd Edition) (Indianapolis: 2009).

⁴ Council for Advancement and Support of Education, *Reporting Standards and Management Guidelines for Educational Fundraising* (4th Edition) (2009).

1. Planning and Silent Phases

- Allowance for collectability
- Discounting long-term pledges
- Differences between fair value calculations under GAAP and under tax law
- Valuations for financial statements that look beyond the “campaign period”
- Revocable or conditional gifts not recorded for GAAP

Donor Documentation

Donor solicitation materials for capital campaigns, such as brochures, letters, pledge cards, flyers, and websites, will establish donor intent when donors are otherwise silent. As donor intent determines how donations are used and how they are accounted for, organizations should pay careful attention to the messages their campaign literature conveys. Obtaining sufficient documentation from a donor for a pledge is important. Collected information should include the donor’s name, address or e-mail, and telephone number; the amount of the promise; and the date of the promise. In addition, organizations will need to track the mode of payment, the payment due date(s), the types of assets pledged, and any conditions or restrictions placed on the gift, and whether any goods or services were received in return for their gift. In order to capture this information consistently, campaigns should use standardized pledge forms. Ensuring the terms of gift are clear to all parties will help avoid misinterpretations and reduce accounting inefficiencies.

Use of Funds

The costs incurred over the course of a capital campaign range from fundraising, marketing, construction and design, to repayments of indebtedness. While most donors understand that a portion of campaign contributions will cover these campaign costs, other donors may restrict the use of their donations to capital asset construction or acquisition. Solicitation documents that clearly specify the organization’s projected use of campaign contributions can help align donor and donee expectations. For example, consider adding the following language to donor solicitation letters or pledge cards as recommended by the Association of Fundraising Professionals:

The overall goal for the use of this pledge or gift is to fund (description of use of funds). However, the funds also may be used, at the discretion of (charity’s name), to pay for the expenses incurred by (charity’s name) during the campaign to include the repayment of indebtedness.⁵

Alternatively, your organization may choose to identify the maximum percentage of contributions that will be applied to campaign costs or describe the process by which campaign funds will be used to pay campaign costs.

Sometimes, organizations may be very successful and fundraise beyond the costs incurred to complete the capital project. In order for the organization to use these funds for an alternative purpose, they would have to go back to each respective donor to seek approval to redirect the funds towards other programs or operational needs. To alleviate this issue, an organization may include language in the pledge form that states any contributions received in excess of the amount needed for the designated project will be

⁵ Calhoun, Peggy and Richard G. Miller, Association of Fundraising Professionals, *Asking for Major Gifts*, (Arlington, VA: Association of Fundraising Professionals, 2004), 38.

1. Planning and Silent Phases

used for future operating costs of related programs or will be used as needed at the complete discretion of the organization.

Should the capital campaign raise funds beyond what is required to cover campaign costs and complete the capital project, the organization will need to redirect these excess funds to its other operational and program needs. Unless campaign literature specifically allows for this reallocation, the organization will need to seek approval from each donor individually before using excess funds for an alternate purpose. Consider adding the following disclosure to donor solicitation letters and pledge cards:

Any contributions received in excess of the amounts needed for the designated project will be used for future operating costs of related programs or will be used as needed at the complete discretion of the organization.

Donors may also attempt to restrict their contributions to certain phases of the campaign or construction, limiting the organization's flexibility in paying for all stages of the capital project. Organizations undertaking multiphasic campaigns may add similar disclosures to campaign literature, including pledge cards, to establish that capital campaign funds will be used towards the completion of the campaign goals as a whole and will be allocated at management's discretion accordingly.

Commitment versus Intent

There must be clear evidence of a donor commitment or promise to give in order to record revenue under US GAAP. As maximizing donor commitments is advantageous to most campaigns, organizations should use language throughout the campaign literature that creates binding pledges. Pledge letters that contain the following phrases create a promise to give under US GAAP:

- I promise
- I (we) commit
- We pledge and agree to pay

The inclusion of the following phrases in solicitation letters, pledge cards, or other donor communication only establishes an intent to give:

- I intend to give
- Subject to availability
- I (we) will endeavor to give
- This statement may be revised or canceled at any time should circumstances necessitate
- This is not a binding pledge

As the intent to give does not constitute a promise or commitment to give under US GAAP, donor communications that use these or similar phrases do not trigger the recognition of any revenue on the financial statements.

Consistently using language that establishes commitment rather than intent to give throughout all campaign literature avoids ambiguity when the time comes to account for pledges. Using the same language of commitment on all campaign literature also promises more efficient, streamlined record keeping: uniform language ensures the uniform treatment of all campaign pledges under US GAAP. The

1. Planning and Silent Phases

finance department should review all campaign materials before distribution to ensure that the language establishes commitment to give and will not open the door for any other accounting difficulties later on.

Capital Campaign Financing

Many capital campaign projects require some form of temporary or permanent financing to help supplement fundraising efforts. Whether the organization just needs to get its project off the ground soon to lock in construction costs or has to make up a funding shortfall, financing can be an important solution. The following are forms of financing available to nonprofits with tips on potential issues to look out for:

Bridge Loans—Most major banks and community banks offer bridge loans for capital projects. Bridge loans provide the cash flow needed to keep construction on schedule before contributed funds are received. Major donor pledges for capital campaigns may take up to five years to be fully paid.

What to look out for—Bridge loans often have associated debt covenants or collateral that secures the financing. Make sure to understand the terms and what your organization needs to do to meet the requirements. The agreements also often include deadlines for issuance of financial statements.

Community Development Financial Institutions (CDFIs)—CDFIs are financial institutions that provide loans to underserved communities. As part of their mission, CDFIs often lend money to other nonprofits. Some CDFIs offer loan products and favorable interest rates as part of their mission that commercial lenders cannot.

What to look out for—CDFI loans sometimes have associated debt covenants or require collateral to secure the financing. However, CDFIs may consider non-traditional forms of collateral or be willing to subordinate their loans to those of other conventional lenders.

Tax-Exempt Bonds—Tax-exempt bonds can be sold to the general public or sold in private placements. Nonprofit organizations unaffiliated with the government will likely partner up with a department of the government as the conduit financing authority. Tax-exempt bonds are attractive to investors because the interest income earned by bondholders is exempt from income tax.

What to look out for—Because tax-exempt bonds are available to the general public, nonprofits utilizing this form of financing will most likely be treated as “public” entities for purposes of US GAAP. Generally, new accounting standards are applicable to “public” entities one year earlier than to “nonpublic” entities. US GAAP also requires additional disclosures from “public entities.” The financial statements of entities that have issued tax-exempt bonds are often publicly available through the Electronic Municipal Market Access (EMMA) [website](#). Additionally, financial statement reporting deadlines often apply.

Issuers of tax-exempt bonds are subject to additional IRS filing and reporting requirements as well. This compliance can be administratively burdensome. Bond issuers must closely monitor the use of bond proceeds and of assets acquired with bond proceeds. Excess use in private business activities, including leases, and sales of acquired assets to third parties may cause the bond issue to lose its tax exempt status.

1. Planning and Silent Phases

New Markets Tax Credits (NMTCs)—NMTCs attract private capital into underserved communities by allowing investors to receive a tax credit against their federal income tax. The investors make equity investments in Community Development Entities (CDEs). Funds are provided to organizations for capital projects, initially in the form of debt, and investors claim tax credits related to their investments for a period of seven years. At the end of the seven-year period, the debt is forgiven and the nonprofit organization recognizes a contribution. This financing arrangement can provide significant capital that eventually becomes “free” money after a set amount of time has passed and certain conditions are met.

What to look out for—Although NMTCs can provide the funds needed for your project, they are extremely complex and require a lot of additional administration and tracking. Do not undertake this endeavor lightly. Significant legal, accounting, and consultant costs are typically incurred during these transactions. Also, every NMTC transaction is slightly different and comes with its own set of accounting and financial presentation issues. Involve the right consultants to help secure your NMTC allocations, and get your legal and accounting advisors involved early, to avoid surprises.

Historic Tax Credits (HTCs)—Similar to NMTCs, HTCs allow investors to receive a 10% or 20% tax credit for rehabilitation of non-historic buildings or certified historic structures. Investors in HTCs may claim tax credits the year a building is placed in service, subject to a recapture, if the building is sold within 5 years. HTCs may sometimes be coupled with NMTCs to enhance the project financing.

What to look out for—HTCs are complex and may require significant costs and ongoing compliance. Accounting and financial presentation issues abound, so consult advisors early.

Property Assessed Clean Energy (PACE) Financing—PACE financing allows for financing energy efficient upgrades or renewable energy projects by an assessment placed on the property and paid through property taxes. If payments are not made, the property will be subject to a lien. However, underwriting requirements are often less stringent for PACE financing than for commercial loans. This debt is tied to the property, not to the organization. If the organization sells the property, the new owner will be responsible for paying the property tax assessment.

What to look out for—Because PACE financing does not follow the borrower; they are often treated as off-balance sheet liabilities. Consult your advisor to determine the appropriate accounting treatment of PACE financings and required financial statement disclosures.

Debt Issuance Costs

Debt issuance costs include fees and commissions paid to the lender as well as other issuance costs incurred. Historically, these costs have been capitalized as other long-term assets and amortized over the life of the debt instrument. However, there have been recent changes to the financial statement presentation of these amounts required under US GAAP. Effective for the 2016 calendar year and for fiscal years ending in 2017, ASU 2015-03, Interest-Imputation of Interest, was issued. This guidance requires debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.⁶

⁶ Accounting Standards Update (ASU) No. 2015-03. *Interest-Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*.

2. Campaign Launch

Overview

The capital campaign officially moves from the planning stage to the launch stage once the effort to raise funds begins. The launch usually includes a silent phase and a public phase. During the silent phase, the organization obtains significant commitments from board members, corporations, foundations, and the government. After the silent phase, most capital campaigns turn to a wider donor audience. This turn is the start of the public phase, during which development and marketing initiatives grow public awareness of the campaign, attracting a large number of donations.

Long-term campaign pledges typically pose the biggest accounting challenges during the launch stage. However, other cash, in-kind, conditional, and unique contributions bring their own accounting considerations.

Unconditional Contributions and Pledges

US GAAP requires nonprofits to measure recognized contributions of cash, other assets, and unconditional promises to give cash or other assets in the future at fair value. For unconditional promises to give that will be collected in less than one year, net realizable value approximates fair value. Net realizable value is the amount the organization ultimately expects to receive: the promised pledge amount less an allowance for uncollectible pledges, if applicable.⁷ The fair value of unconditional promise to give expected to be collected in more than one year is most often determined using a present value (“PV”) technique (an application of the income approach).⁸

PV utilizes two key pricing inputs: cash flows and discount rates. These inputs should reflect the factors that hypothetical market participants would consider in setting prices for the promises to give if they were sold on the open market. Such factors include current interest rates (discount rate) and the appropriate risk premium as determined by the risks and uncertainties associated with the amount and/or timing of the cash flows for a particular unconditional promise as determined by the donor profile.

For example, assume Donor A commits to a \$100 pledge over 5 years, with \$20 payments each year. Based on the nonprofit’s historical collection rates for donors with similar risk profiles, the amount expected to be received from Donor A is \$95. The difference between the pledge amount and the amount expected to be received reflects the risk premium. The discount rate is the appropriate Treasury yield curve rate on the date of the gift. As payments are spread over five years, we use the five-year rate, which is 2.82% for our example. The PV calculation is as follows:

⁷ FASB Accounting Standards Codification (ASC) Subtopic 958-605, *Not-for-Profit Entities—Revenue Recognition*.

⁸ “Measurement of Fair Value for Certain Transactions of Not-for-Profit Entities,” AICPA, <http://www.aicpa.org/interestareas/frc/industryinsights/fv-and-disclosures-nfp.html>.

2. Campaign Launch

Expected Pledge Payments									
Gift Date	Balance	Discount Rate	CY + 1	CY + 2	CY + 3	CY + 4	CY + 5	Present Value	Discount
May 2018	100	2.82%	19	19	19	19	19	88	(12)

As there is a \$5 allowance for uncollectability built into the cash flows reflected above, no additional allowance needs to be placed on the discounted pledge value of \$88 unless the expected uncollectable amount increases in future years.

For a longer discussion of the fair value of long-term pledges, key pricing inputs, and PV techniques, please reference BPM's whitepaper on fair value considerations for nonprofit entities.⁹

Unconditional versus Conditional Contributions

As stated in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605-20, in order for a contribution to be recognized, it must meet the following definition of a contribution:

An unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.

Often, a nonprofit receives a contribution or pledge that is conditional on the occurrence of one or more future and uncertain events. These conditional transfers of cash or conditional pledges are not contributions under US GAAP unless and until the conditions that allow the funds to be used or that obligate the donor to fulfill the pledge have been met.

All stipulations in donor agreements should be assessed in order to determine the appropriate accounting treatment for the associated contributions, especially when it is uncertain the stipulations will be met. According to the American Institute of Certified Professional Accountants (AICPA) guidance,

If donor stipulations do not state clearly whether the right to receive payment or take delivery depends on meeting those stipulations, or if those stipulations are ambiguous, distinguishing a conditional promise to give from an unconditional promise to give may be difficult. First, review the facts and circumstances surrounding the gift and communicate with the donor. If the ambiguity cannot be resolved as a result of those efforts, presume a promise containing stipulations that are not clearly unconditional is a conditional promise to give. However, if the possibility that the condition will not be met is remote, a conditional promise to give is considered unconditional. For example, a stipulation that an annual report must be provided by the donee to receive subsequent annual payments on a multiyear promise is not a condition if the possibility of not meeting that administrative requirement is remote.¹⁰

⁹ "Fair Value: Challenges for Nonprofits, Practical Guidance in Overcoming the Uncertainties of Measurement,"—BPM LLP.

¹⁰ *Audit and Accounting Guide: Not-for-Profit Entities*, (AICPA: New York, 2018), Section 5.64.

2. Campaign Launch

Common stipulations seen in capital campaign contributions include matching or challenge contributions and milestones.

Matching or Challenge Contributions—A challenge (or matching) grant matches funds raised by the organization over a specified time-period and/or up to a specified amount. These grants challenge the organization to meet fundraising goals more quickly.

Milestone Payments—Some donations take the form of installment payments made upon the completion of milestones related to construction. The intent behind structuring the donation this way is key: In some cases, the donor intends to make a commitment but identifies milestones to indicate when the installment payments will occur. In this case, the donor's pledge is an unconditional contribution recognized as revenue. Alternatively, the donor may intend to only commit funds to the extent milestones are achieved. This donation may be a conditional contribution, especially if the completion of the milestones is uncertain, in which case revenue is not recognized. However, in practice, if the required funding has been achieved, non-completion of the milestones is often sufficiently remote that the organization will treat such a donation as certain and, therefore, as an unconditional contribution as well.

The FASB issued Accounting Standards Update (ASU) 2018-08, a new grants and contracts standard that moves away from a probability assessment of conditional gifts to an assessment of the barriers that must be overcome before the organization is entitled to the use of funds.¹¹

In-Kind Contributions

Capital campaigns often generate in-kind gifts. These gifts can come in many forms, including professional services such as architectural or construction services and goods (equipment or materials).

In order to record these gifts at the appropriate amounts, the nonprofit should make a reasonable effort to determine the fair value of the contributed services and goods. For services, request supporting documents from the service provider. For goods, often a quote of the assets contributed or other observable indicator of fair value is appropriate. However, depending on the value of the donation, qualified appraisals may be required for tax purposes.

Donee organizations should never provide a valuation of donated services or goods to the donor. It is the donors' responsibility to reasonably state the fair values of their gifts and to report these gifts to the IRS on their tax filings. Donor acknowledgements should only detail the goods contributed or services provided without including a dollar amount to avoid assuming responsibility for fair value calculations used in the donors' tax filings. Similarly, it is the donor's responsibility to populate Form 8283: Noncash Charitable Contributions Parts I—III, including any valuation or appraisal. The donee organization should only complete Part IV, Donee Acknowledgment. However, should donated goods be consumed or disposed of within three years of the donation, the organization may have IRS Form 8282: Donee Information Return filing requirements. Please consult your tax advisor.

For additional information on accounting for in-kind contributions, see BPM's whitepaper "[Accounting for In-Kind Donations](#)."¹²

¹¹ ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.

¹² "Accounting for In-Kind Donations," BPM LLP, <http://www.bpmcpa.com/News-Events/103905/Accounting-for-In-Kind-Donations>.

Other Contribution Considerations

Donor-Advised Funds, Private Foundations, and Personal Pledges

Major donors are increasingly routing their donations through other charitable vehicles (i.e. private foundations or donor-advised funds.) A donor-advised fund (DAF) is an account held at a sponsoring organization, often a community foundation. The sponsoring organization owns and controls the DAF, and the donor retains only advisory privileges over the distribution or investment of the funds in the account. Once a donor makes a contribution to a DAF, the sponsoring organization gains legal control or “variance power” over the funds, which allows the donor to take a tax deduction for the contribution at the time the donation is made to the DAF. While sponsoring organizations usually approve donor requests, the organizations are under no legal requirement to do so. Using DAFs to make donations becomes problematic when donors use these vehicles to fulfill prior personal obligations or commitments.

IRS guidance has historically prohibited a donor from fulfilling a legally enforceable pledge with a payment from a DAF. Since the donor has no legal ability to obligate the DAF, the IRS has treated a DAF’s fulfillment of a donor’s obligation as an impermissible prohibited benefit under the Pension Protection Act of 2006. However, a recent IRS notice proposes guidance that would allow DAF distributions to fulfill donor pledges in certain circumstances so long as the sponsoring organization made the distribution without reference to the donor’s pledge and meets certain other requirements.[1] Final guidance is outstanding at the time of this publication. However, the IRS has permitted taxpayers to rely on the proposed guidance in the interim. Note that the IRS guidance does not provide a similar exception for payments of a donor’s pledges from a private foundation because the relationship between a private foundation and a donor is closer than the relationship between a donor advisor and a sponsoring organization.

Until final guidance is available, organizations should work closely with donors to identify how donors will fulfill their pledges. Consider including a field for the source of funds on donor pledge forms. If a donor completes a pledge form indicating a gift will be coming from a DAF or private foundation, the nonprofit should not recognize a contribution or pledge until notified by the DAF or private foundation of a distribution.

When contributions are routed through a DAF or private foundation, all related donor acknowledgement communication should specifically identify the DAF or private foundation, not the individual funding the DAF or private foundation, as the donor. The person funding the DAF (the DAFs donor) may be copied on correspondence, but the tax acknowledgment should not be made out to this person, who does receive a charitable contribution deduction for the transfer of funds to the DAF. Directing acknowledgement communications to the DAF’s donor instead of to the DAFs erroneously suggests that a second charitable contribution deduction is available to the DAFs donor when funds are disbursed by the DAF to another exempt organization. To avoid confusion, track and communicate with DAFs and their donors separately.

Investment Income from Capital Campaign Funds

If a nonprofit earns interest or other investment income on capital campaign funds, the organization must presume that the use of that income is also restricted to the capital campaign unless clearly addressed in donor solicitations or other indications of donor intent.

[1] IRS Notice 2017-73, Section 4.

3. Construction Phase

Overview

Once the organization has secured sufficient funds to begin asset construction, acquisition, or improvements, it faces a new set of accounting challenges. Now, the organization must identify acquisition and construction costs that must be capitalized under US GAAP, account for retainers on contractor invoices, and prepare additional financial statement disclosures related to the campaign and acquired assets.

What to Capitalize

Per ASC 360-10-05-3, “property, plant, and equipment typically consist of long-lived tangible assets used to create and distribute an entity’s products and services and include: a. land and land improvement, b. buildings, c. machinery and equipment, d. furniture and fixtures.” Any tangible asset with a useful life greater than one year should be capitalized. Although guidance does not provide a dollar threshold, many organizations set an amount above which purchases and contributed items are capitalized as property, plant, and equipment. The organization then recognizes the cost of using these capitalized assets over time as a depreciation expense, just as do non-exempt entities.¹³

Capitalization of Bulk Purchases

Organizations should consider large purchases consisting of multiple items (such as of desks to furnish a classroom or laptops for use by a new team) as a single purchase when applying the organization’s capitalization threshold. Bulk purchases that exceed the organization’s capitalization threshold in aggregate should be capitalized even if the items contained in the bulk purchase do not exceed this threshold individually.

Improvements versus Repairs

Amounts above a set threshold paid to acquire or construct assets with a useful life greater than one year are capitalized. This is a relatively straightforward assessment. Identifying when to capitalize amounts paid to repair or improve existing assets can be more complicated. Should an organization capitalize new paint and carpet acquired as part of a capital campaign for use in an existing building? US GAAP differentiates between improvements, which appreciably extend the life, increase the capacity, or improve the efficiency or safety of the property, and repairs, which do not. If the paint and carpet meet the definition of improvements, the organization must capitalize them. If the paint and carpet meet the definition of repairs, the organization should expense them.

Contributed Property and Services in connection with Capital Projects

Often, there is a difference between the fair value of gift-in-kind donations pledged and donations received. The nonprofit should record fair value at the time of the pledge and revalue the gift when

¹³ FASB Accounting Standards Codification (ASC) Paragraph 958-360-05-01, *Not-for-Profit Entities—Property, Plant, and Equipment—Overview and Background*.

3. Construction Phase

received. For example, if a construction contractor pledges free services initially estimated at \$500,000, but actually provides services worth \$600,000, the organization will record the following journal entries:

Journal Entry at time of Pledge—Construction Services pledge of		\$500,000
DR Restricted Pledge Receivable		\$500,000
	CR In-Kind Contribution	\$500,000

Journal Entry at the time of Receipt—Construction Services actually received of		\$600,000
DR Construction in Progress		\$600,000
	CR In-Kind Contribution	\$100,000
	CR Restricted Pledge Receivable	\$500,000

Valuing in-kind contributions at receipt ensures that revenue appropriately captures all contributions and that the amount capitalized appropriately includes all costs incurred to secure or construct the asset.

Per ASC 958-360-30-1, the donee organization must also capitalize costs incurred to place donated assets in use, including freight, installation, and any necessary modifications. For example, a library would capitalize the fair value of donated books, shelving and shipping costs to transport the donations from the donor, contractor fees for the installation of the shelving, and cataloguing costs related to the contributed library books.

Capitalization of Interest

Per ASC 360-10-30-1, the historical cost of acquiring an asset includes the costs incurred to bring the asset to the condition and location necessary for its intended use. In many cases, interest is one of these capitalizable costs. A portion of interest expense incurred while constructing or readying an asset for its intended use is capitalized. This portion corresponds to the portion of underlying debt proceeds actually used to date for capital expenditures. Per ASC 835-20-30, “the amount capitalized in an accounting period shall be determined by applying the capitalization rate to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period shall be based on the rates applicable to borrowings outstanding during the period.”

For example, if a nonprofit took out a \$10,000,000 loan for its capital project but only used \$2,000,000 of the funds to-date for capital expenditures, the organization should only capitalize 20% of the interest expense incurred for the period. Interest capitalization stops once the asset is placed into service even if the debt remains.

Capitalization of Overhead Costs during Construction

Personnel costs—including salary, wages, benefits, and payroll taxes—directly attributable to constructing an asset must be capitalized. Capitalizable personnel costs include amounts paid for staff hired specifically to oversee construction, such as an internal project manager. However, other employees may also spend a portion of their time performing work directly related to construction. The organization must capitalize the portion of payroll expenses for these employees corresponding to the portion of time they spent performing work directly related to construction.

3. Construction Phase

Construction Capitalization—Timing of Payments

Unpaid invoices for work performed and retainer fees can complicate valuing construction in progress when reporting periods end in the middle of construction. Amounts invoiced for work performed during the reporting period must be capitalized as construction in progress regardless of whether the invoices have been paid or received by year-end.

For example, assume an organization is constructing a \$1,100,000 building. At the end of the organization's fiscal year on June 30, 20X1, the organization has paid all invoices related to construction received through May 31, 20X1, totaling \$800,000. The invoices calculate an additional 10% retainer. Subsequent to year-end, the organization receives an additional invoice for \$200,000 and a 10% retainer for costs incurred through June 30, 20X1. The building was completed and placed in service in early July 20X1.

The organization would record the following entries:

Journal Entry—Construction invoices paid through May 31, 20X1	
DR Construction in Progress	\$880,000
CR Accrued Liabilities—Retainer	\$80,000
CR Cash	\$800,000

Journal Entry—Construction invoice received as of June 30, 20X1	
DR Construction in Progress	\$220,000
CR Accrued Liabilities—Retainer	\$20,000
CR Accounts Payable	\$200,000

Statement of Cash Flows Presentation—Construction Accruals

When a reporting period concludes in the middle of ongoing construction, significant capitalized construction costs typically relate to accrued amounts not yet paid. The organization must reverse these accruals out on the statement of cash flows and add them back in the subsequent year when paid. Often, the organization will need to include a noncash investing and financing disclosure in the financial statements for the affected periods to explain the effect of these accruals.

Based on the example above, the organization would disclose cash additions to PP&E of \$800,000 as investing activities on the statement of cash flows at June 30, 20X1, despite having capitalized \$1,100,000 of construction-in-progress. Since \$300,000 of costs are accrued and unpaid at year-end, the organization would reverse \$300,000 from the change in accrued expenses and cash additions to PP&E so as to not overstate both of those items. Instead, the organization would present the \$300,000 in a non-cash investing disclosure of asset additions made through accrued liabilities. Assume the accruals are paid in the subsequent year 20X2. The 20X2 statement of cash flows should reflect a \$300,000 increase in cash additions to PP&E offset by an equal increase in accrued liabilities.

Other Reporting Considerations

Release of Restrictions during Construction Phase

It may seem intuitive to release capital campaign restrictions from funds as the funds are used during construction. ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, prohibits this approach. Once an organization adopts ASU 2016-14, the organization must release restrictions on gifts of or for capital assets once the asset is placed in service, absent any other donor restrictions indicating otherwise. During the construction phase, an organization's statement of activities will likely show significant balances of net assets with donor restrictions associated with the capital campaign, while the statement of financial position will show costs incurred towards the construction as construction in progress.

Organizations for which ASU 2016-14 results in a reclassification of previously unrestricted net assets or changes to ongoing operations, the organization should review debt agreements to determine whether the organization will be compliant with existing debt agreements upon adoption of the ASU. If not, the organization should contact the lender to request covenants be modified to accommodate the changes in the accounting standards.

ASU 2016-14 Liquidity Disclosure

ASU 2016-14 also requires nonprofit organizations to include a disclosure on liquidity and available resources in their financial statements. Per ASC 958-210-50-1A, a nonprofit shall disclose qualitative and quantitative information that is useful in assessing an entity's liquidity and how the organization manages its liquid resources to meet cash needs. Availability of a financial asset may be affected by 1) its nature, 2) external limits imposed by donors, laws, and contracts with others, and 3) internal limits imposed by governing board decisions.

During capital campaigns, and especially during the construction phase, organizations should be ready to add liquidity disclosures. The organization may need to use funds from operations or operating reserves to accommodate for differences between when construction costs become payable and the receipt of outstanding long-term pledges, reducing cash balances to pay for construction. This may reduce the organization's liquid resources available for general expenditures. Organizations should ensure that cash flows throughout construction are sufficient to prevent a liquidity concern.

Sample Liquidity Footnote:

The Organization's financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and cash equivalents	\$ X,XXX
Accounts receivables	X,XXX
Contributions receivable	X,XXX
Short-term investments	<u>X,XXX</u>
	\$ X,XXX

The Organization's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

3. Construction Phase

Operating Measure

Organizations may choose to disclose a measure of operations on the face of the statement of activities. In ASC 958-225-55-17, the FASB provides an example of one way a nonprofit can present this measure in years with capital campaigns. In the example, the nonprofit backs out contributions related to the capital campaign from support and includes revenues as part of the operating measure and presents these contributions after the operating measure on the statement of activities. This enables the reader to see how the nonprofit is operating without the additional contributions related to the capital campaign. Alternatively, if an organization's management prefers, the organization can disclose a measure of operations as a footnote, as described in Case B contained in ASC 958-225-55-19.

Sales and Use Tax

Although general contractors are often responsible for ensuring the organization pays sales and use tax during construction, the organization may be ultimately responsible for any unpaid tax. California imposes use tax on tangible property purchased from out-of-state vendors not required to collect tax on sales to the state. Review invoices and contracts with your general contractor to ensure sales and use taxes are reflected and paid properly. Additionally, work with your advisors to calculate and remit use tax on any out-of-state purchases not routed through the general contractor, such as for out-of-state orders of furniture and fixtures.

4. Placed in Service and Stewardship Phases

Background

After construction is complete and resulting assets are in service, the organization must determine the appropriate accounting and tax treatments for new assets, and revenues and expenses generated by their uses. Organizations should be able to answer:

- What is the depreciable life of assets acquired?
- What is the most appropriate depreciation method?
- How should the organization release the restrictions on capital campaign funds?
- Will the assets expose the organization to unrelated business income tax?

Although construction is over, accounting for the acquired assets is just beginning.

Placed in Service

Fixed Asset Useful Life and Depreciation

Assets acquired through a capital campaign include more than just the building or land. The organization must separately capitalize and depreciate furniture and fixtures, improvements, and equipment used in the new building. For example, when a school constructs an athletic stadium, new assets may include athletic equipment, audio equipment, and a field or court surface. Each of these assets will have a unique useful life. Management must identify all assets acquired during the campaign, identify their placed-in-service dates, and determine appropriate useful lives and depreciation methods.

While many nonprofits use straight-line depreciation for all fixed assets, other methods may be worth considering. US GAAP requires organizations to recognize the cost of an asset over its expected useful life in the way that best matches expenses to the periods during which services are obtained from the use of the asset. This procedure is known as depreciation accounting, a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation.¹⁴

Depending on the resources available to the nonprofit, management may take various approaches to tracking fixed assets and depreciation. According to US GAAP, any asset with a useful life greater than one year should be capitalized. The organization should track fixed assets in accordance with its fixed asset policy. This tracking may include specific “tagging” of capitalized assets as a form of fixed asset

¹⁴ FASB ASC Paragraph 360-10-35-4, *Paragraph Property, Plant, and Equipment—Overall—Subsequent Measurement*.

4. Placed in Service and Stewardship Phases

internal control. If the organization utilizes fixed asset software, individually tracking items added as part of a capital campaign may be feasible. However, if the organization manual tracks fixed assets, grouping assets by placed-in-service date and useful life may be a better approach. If grouping assets, organizations should perform fixed asset counts and record the initial condition of the assets to facilitate the identification of material impairments in subsequent years.

Releasing “With Donor Restriction” Net Assets

Under ASU 2016-14, nonprofit organizations release the net asset restrictions on donor contributions for the capital campaign once the related assets are placed in service, absent any other donor. If the organization solicited donations for various phases of the project, the associated net assets can be released once each phase is placed in service, rather than waiting for the completion of the entire project. Structuring a project with phases can help to improve the financial picture on the financial statements at year-end and prevent some of the needed qualitative disclosures regarding liquidity. Additionally, if the organization solicited donor contributions for the stewardship and maintenance of the asset, these contributions must remain restricted until spent in the years following the initial placed-in-service date. Similarly, if a portion of the capital campaign funds were solicited to cover costs to run the capital campaign, these amounts may be released to as incurred.

Ongoing Stewardship and Costs

After construction or acquisition, organizations may face increased stewardship, administrative, and operating costs. New buildings require significant ongoing maintenance. Expanded facilities may allow for more personnel. Organizations should consider these future costs during the planning stages of any significant capital campaign. Soliciting contributions to cover stewardship or increased operating costs as part of the capital campaign is one way to ensure funding to operate and maintain the building once placed-in-service. Planning for these costs at the start of the campaign can avert liquidity and cash flow concerns later on.

Unrelated Business Income

New real property may bring with it unwanted income tax liabilities stemming from rents, parking garage income, or other on-site income. Before accepting donated real property, an exempt organization should assess and prepare for any resulting unrelated business income tax (UBIT) concerns.

Debt-Financed Real Property and Rental Income

Rental income does not typically generate taxable unrelated business income (UBI) unless the rent is attributable to debt-financed property.¹⁵ Rental income generated by debt-financed property is taxable as UBI to the extent of the indebtedness.¹⁶

Exempt organizations often accept real property subject to a loan. The donee organization may assume the outstanding debt, or the donor may remain responsible for the liability. Donations of real property, subject to indebtedness, have the potential to generate UBI *regardless of whether the donor remains responsible for paying the remaining debt*. Donated real property encumbered by debt can be even more problematic when coupled with pre-existing leases to third parties. The tax code provides some ways of keeping rental income from debt-financed property tax-free.

¹⁵ IRC §512(b) (3).

¹⁶ IRC §514(a).

4. Placed in Service and Stewardship Phases

85% Exempt Use Exception: If at least 85% of the donated property is used directly in carrying out the recipient organization's exempt purpose, the entire property is not subject to the debt-financed provisions discussed above.¹⁷ Merely funding the organization's exempt activities—for example, from rental income generated by the property—does not qualify as a direct exempt use of the property. Instead, the organization must use the property itself in the performance of exempt activities.

A property may meet the 85% threshold as determined by temporal or spatial calculations or a combination of both. For example, all three of the following properties are exempt from the debt-financed provisions:

- **Property A:** A property used 85% of the time for the organization's exempt purpose and rented 15% of the time to a third party.
- **Property B:** A 10,000 square-foot property used directly in the organization's exempt purpose entirely except for a 1,500 square foot office rented to a third party.
- **Property C:** A 10,000 square-foot property consisting of an 8,500 square-foot office and a 1,500 square foot office. The 8,500 square-foot office is used 83% of the time directly for the organization's exempt purpose. The 1,500 square-foot office is used 100% of the time directly for the organization's exempt purpose.

$$(1,500 \times 100\%) + (8,500 \times 83\%) = 8,555$$

$$8,555 / 10,000 = 85.6\%$$

As the organization uses 85.6% of the property directly for the organization's exempt purpose, the property meets the 85% test threshold.

If less than 85% of the donated property is used directly in carrying out the organization's exempt purpose, the tax code treats only the portion of the property used this way as not debt-financed.¹⁸ Rental income from the remaining portion of the property may still trigger tax obligations.

The 5 Year Exception: Donated property held by the donor *more than 5 years* prior to the date of the gift **and** subject to debt entered into *more than 5 years* prior to the date of the gift is not considered debt-financed property for the first 10 years following the date of the gift so long as the donor remains responsible for paying the outstanding debt.¹⁹ However, if the exempt organization assumes any of the debt, this exception does not apply, and the organization may be subject to tax on rental income from the property.

Bequest Exception: Real property subject to indebtedness acquired by bequest is not treated as debt-financed property for the first 10 years after acquisition.²⁰ If the mortgage remains unpaid after ten years, rental income may begin to generate UBI. However, if the exempt organization assumes any of the debt, this exception does not apply, and the organization may be subject to tax on rental income from the property.

¹⁷ *Treasury Regulations* 1.514(b)-1(b) (1) (ii).

¹⁸ *Treasury Regulations* 1.514(b)-1(b) (1) (i).

¹⁹ *Treasury Regulations* 1.514(c)-1(b) (3) (ii).

²⁰ *Treasury Regulations* 1.514(c)-1(b) (3) (i).

4. Placed in Service and Stewardship Phases

The Neighborhood Land Rule: Debt-financed property acquired adjacent or, in certain situations, within one mile of pre-existing property may be able to generate tax-free rental income for up to ten years if the following hold true:²¹

- The property was acquired with the intent to be used for the organization's exempt purpose within ten years of acquisition.
- Before using the property for the organization's exempt purpose, all existing structures will need to be demolished.
- Any lease on the property during the ten-year period does not exceed five years.

Churches may apply the neighborhood land exception to any property acquired regardless of location and are allowed a 15-year period between the acquisition of the property and the commencement of the property's intended exempt use.²²

Choosing a Lessee: Before accepting donated real property, especially donated real property subject to debt, consider all existing leases on the property. If the real property is not subject to pre-existing leases, the recipient organization may strategically choose lessees whose rent will not trigger income tax.

Exempt Organizations with Related Exempt Purposes: In certain circumstances, rent received from a third-party exempt organization whose work furthers the lessor's exempt purpose may be excluded from UBI even if the rented property is debt-financed.²³

Related Organization Exception: Rent from property used by a related exempt organization to further either organization's exempt purpose is not subject to UBIT.²⁴ Two organizations are related if any of the following are true:

- At least 50% of the members of one organization are members of the other organization.
- At least 50% of the board members of one organization are board members of the other organization.
- Both exempt organizations are local organizations affiliated with the same larger exempt organization.

²¹ *Treasury Regulations* 1.514(b)-1(d) (1).

²² *Treasury Regulations* 1.514(b)-1(e) (1).

²³ *Treasury Regulations* 1.514(b)-1(b) (1) (i).

²⁴ *Treasury Regulations* 1.514(b)-1(b) (6).

Conclusion

Capital campaigns are an exciting way for an organization to achieve its goals and mission. However, taking time amidst this excitement to consider the accounting and tax implications of all phases of the campaign will help your organization avoid stressful complications for the organization and its donors down the road.

Key takeaways to keep in mind as you plan your campaign include the following:

- Involve the finance team early
- Establish procedures and policies at the beginning of the campaign before issues arise
- Use consistent, clear language in solicitations to establish the use and purpose of campaign funds
- Know your accounting for the funds raised (contributions, pledges, in-kind) and the costs incurred (fundraising, capital assets, and financing costs)
- Plan for tax issues related to contributions, sales, use, and unrelated business income tax
- Consider the impacts to financial statements and 990 and how you want the activity presented in combination with operating activities

BPM Is Here to Assist You

For more information on this topic, please contact your BPM Advisor, call (415) 421-5757, or email bpm@bpmcpa.com. You may also monitor our [Nonprofit Industry Group](#) website for the latest information.

About BPM

BPM Nonprofit Industry Group

BPM's Nonprofit Industry Group consists of over 60 professionals who employ a full-service approach to accounting for nonprofits. One of our founding goals is to make a difference in the manner nonprofits are served by our profession. Each member of our group brings differing expertise from our Tax, Assurance, and Advisory practices. Together, we provide a comprehensive understanding of all the functions needed to operate a nonprofit organization.

Our Nonprofit Services Group provides clients with a wide range of services beyond audit and tax, such as planned giving options, accounting software recommendations, database design and testing, financial projection and model development, risk assessment, network system design and development, and many other areas of accounting and advisory.

Our professionals receive specialized nonprofit training throughout the year. In addition, we hold dedicated internal nonprofit meetings at regular intervals to review current trends and issues. We attend, speak at, and chair nonprofit conferences held by professional organizations.

We are proud to provide training and continuing education for our friends and clients in the nonprofit sector. Throughout the year, our Nonprofit Industry Group hosts a free Nonprofit Education Series on a variety of topics related to nonprofit management. Over 4,000 nonprofit staff, executives, and board members have benefited from these training sessions.

BPM partners serve on a multitude of boards in the community and have been active on committees with the California Association of Nonprofits and the Independent Sector. Our commitment to serve the nonprofit sector has been, and will continue to be, a core part of BPM's business and mission.

Authors

Melodie Olson, CPA

Senior Manager, Assurance

molson@bpmcpa.com

(415) 677-4506

Harlow Loch, CPA

Senior, Tax

hloch@bpmcpa.com

(415) 677-4568

Nathan Farris, CPA

Contributor

nonprofit@bpmcpa.com



©2018 BPM. All Rights Reserved.

This publication contains information in summary form and is intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither BPM nor any other member of the BPM firm can accept any responsibility for loss brought to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.