

FALL ISSUE 2022

Nonprofit services continue to be in high demand around the globe, despite the unique financial and economic challenges that the nonprofit sector has faced over the last two years. It has been truly inspiring to witness the perseverance and resolve by our nonprofit clients as well as the entire sector to continue to meet those service needs. But there is still a lot of work to do, and you need a partner with a proactive approach to your organization's short- and long-term needs – all while never losing sight of your mission statement. At Davis & Hodgdon CPAs we approach your audit and accounting work always focused on your mission and strategic plan.



Compensating Your Volunteers

Volunteers play a vital role in the success of nonprofit organizations, so it's important to create systems for recognizing and rewarding them. Doing so will show appreciation and encourage their hardwork. With that said, tax consequences for the volunteers should be considered as rewarding systems are developed. There are no tax issues when a volunteer is given rewards of nominal value such as free food and drink at a thank-you party or a certificate of appreciation. However, more substantial rewards could result in taxable income to the volunteers. For example, an award of money or a valuable gift would be taxable--that is, the volunteer would have to add the amount to his or her income for the year and pay income tax on it. The individual threshold for this is \$600.00USD.

There are some types of rewards that are tax-free. These are the type of tax-free fringe benefits that employers can give their employees. Most volunteers at nonprofits qualify as employees for tax purposes because they almost always work under someone else's supervision or direction. So, they can get these fringe benefits tax free, just like an employee.

These include the following:

- Discounts
- Parking and other transportation benefits
- Meals and lodging at nonprofit premises
- No additional cost services
- Education benefits
- Insurance coverage

Other benefits are taxable- other than what is listed above, any cash, discount, service, or benefit that a volunteer receives must be treated as taxable income and reported to the IRS. Benefits other than cash are valued according to their fair market value and then treated the same as taxable cash income. Example: To encourage volunteers during a fundraising drive, a nonprofit offers a Hawaiian vacation to the volunteer who raises the most money. The fair market value of the vacation is taxable income. The vacation costs \$2,000, so this is the amount that the nonprofit must report to the IRS and the winning volunteer must add this to his or her taxable income for the year. It's important to reward volunteers and show your appreciation without having them experience tax consequences.

How Can Your Nonprofit Achieve Financial Sustainability?

Financial sustainability and good financial health are the keys to success for nonprofits, as it empowers them to serve their communities and fulfill their missions.

What does good financial health mean to nonprofits?

The financial health of a nonprofit organization is measured by its ability to impact the well-being of the communities it serves with high-quality programs or services that are mission-driven while using the available financial and economic resources to maintain a sustainable organization. The key here is that the nonprofit is providing affordable programs that are aligned with the organization's revenue streams.

3 ways for nonprofits to achieve financial sustainability.

- 1. Explore funding alternatives and establish diverse revenue streams.** Innovative fundraising techniques, such as giving circles and fostering relationships with investors, can help to address financial challenges. Having multiple diverse revenue streams is a sign of a healthy, sustainable organization. Look into holding in-person or virtual events such as a silent auction or consider selling branded merchandise. Many nonprofits use crowd funding as a source of fundraising— it's not just for start-ups and there are many reputable crowdfunding platforms for nonprofits to choose from. You could also consider donor advised funds or corporate giving opportunities.
- 2. Make tough decisions.** Maintaining financial health may require making some difficult choices including when to exit an existing and/or longstanding program. Look closely at your programs to determine if any are

operating at a loss. Are there reasons for not exiting those programs? Are those reasons compelling enough to explore ways to reduce costs and identify ways to operate the program more efficiently? An accounting firm can act as a good resource for evaluating programs and efficiencies using data-driven techniques. If the decision is made to exit a program, an exit strategy should be carefully developed and deployed. That strategy should include a plan for communications as well as identification of other organizations that could offer those services or programs.

- 3. Consider whether restructuring could be beneficial.** Financial pressures from increased competition and community need is an unfortunate reality. Nonprofits may need to consider fundamental, strategic changes in their organizational structures to remain sustainable. While it is ultimately the responsibility of a nonprofit's trustees to discuss whether a merger, acquisition or divestment is financially sound, the restructuring process can be streamlined with the oversight of regulators, policymakers and funders. Working together, they can set aside dedicated funding and provide technical assistance for restructuring transactions, moving the approval processes forward.

Does your strategy for financial sustainability need some fine-tuning? Davis & Hodgdon CPAs has been assisting Vermont's nonprofit sector for more than 30 years. Call us today at 802.878.1963 to schedule a strategy session.

Resources:

- Rand.org: www.rand.org
- The CPA Journal: www.cpajournal.com



Questions? Concerns? With offices in Rutland and Williston Davis & Hodgdon CPAs has served Vermonters and beyond for more than 30 years through expert staff, high-end technology, and unparalleled efficiency. Our mission as your accountant is to provide the financial peace of mind for yourself, your business, your children, and future generations. Visit <https://www.dh-cpa.com/contact-us> to schedule a strategy session with one of our tax experts.