



## PROS & CONS OF A PAPERLESS OFFICE

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By: *Ryan F. Kauzlarich, Senior Audit Manager*

#### What paperless is:

Cost savings  
Strong internal control  
Reduces materials and need for storage space

#### What paperless isn't:

Faster or more efficient  
Designed to save time/energy  
Task for untrained admin staff  
Simple to implement

In an attempt to save time and resources, many organizations try to migrate their office to be "paperless" or "reduced paper". This is a fantastic goal but one which must be carefully planned rather than quickly implemented. The law of unintended consequences often applies with hasty decisions.

Before implementing a paperless system, you must understand the following issues so that you can develop internal controls to offset them:

"READERS MAY KNOW THAT UTILIZE MEANS USE AND OPTIMUM MEANS BEST. BUT WHY MAKE THEM TRANSLATE?" SKIP BOYER  
WE ARE JUST PLAIN-LANGUAGE AUDITORS

- How long banking information will be available online (usually only 3-6 months)
- Long term storage plan on your business server and off-site backup (cloud, on-line, etc.)
- Effective electronic file organization and management (file name & hierarchy)
- Adequate hardware to scan and save the volume of information required to your organization
- Managing personnel restrictions to banking information and server access
- Flow chart and internal controls to replace those which were in place with a paper system

Migrating to a paperless system is best implemented at the beginning of a new fiscal year. This reduces confusion and simplifies document retention. Staff should be on-board with the new procedures and display confidence in understanding how to accurately handle this increase in electronic information.

Have hardware which can scan and save directly to secure network locations. Have a detailed folder hierarchy established prior to implementing a paperless system.

Have an Information Technologies professional assist establishing these procedures and on-call to assist in the event of server/hardware failures, lack of internet connectivity or user error.

New internal controls will need to be established and employees roles and responsibilities outlined clearly.

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The information in this newsletter is necessarily brief. No final conclusions on these topics should be drawn without further review and consultation. For additional information, PLEASE CONTACT US.

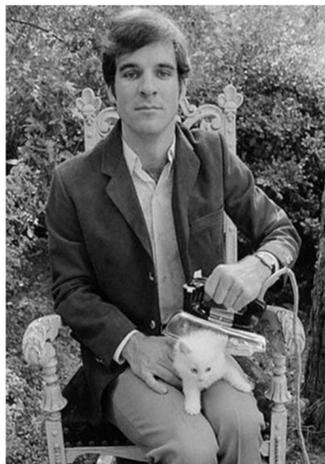
## CHARITABLE DEDUCTIONS - SMOKE AND MIRRORS

The charitable contribution deduction, as it has been since 1986, does not provide the significant benefits of reducing tax liability. First, the taxpayer must qualify to file Schedule A, which is mostly available to homeowners. In 2013, the IRS stated only 31% of all taxpayers completed Schedule A.

The benefit is roughly 25 cents tax reduction for every \$1 donated. The most favorable place for the tax deduction would be on page 2 of Form 1040 with a credit of \$1 against the tax liability for each \$1 donated and would be available for every person making a charitable deduction and filing a tax return (only 75% of the population are required to file a return).

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Data integrity is paramount and you must use on-site servers or data storage solutions which are reliable not only now, but for the next seven years. The volume of data that will be held in images will be substantial and failure to predict the volume or complexity of having a proper folder hierarchy is a serious pitfall of migrating to a paperless system. This information is critical and sensitive. You should not make a casual decision to become paperless.



As new documents are created, users should add information about the content into metadata fields. Metadata is information about the document being stored, such as keywords, subject, category tags and retention period. Storing this information with a document can help users locate files in the future.

Poor “systems” are “we don’t print those anymore”.

Problems abound when a standardized filing hierarchy has not been developed on a group server and mandated to be used by all employees.

Many organizations have created the “play book” on how to successfully migrate to a paperless system. And many organizations have failed to implement save or secure systems. We would be happy to discuss if this migration is something that would be beneficial to your organization. In addition, we are very effective at establishing internal controls that will benefit and safeguard your organization. Contact us today!

## TOP 5 TRAPS FOR NFP

**LIQUIDITY**– This is measured by the months of gross income in operating reserves. Only half of NFPs have six months of reserves. For NFP funded by reimbursement based grants, this type of liquidity is only possible with fundraising and contributions.

**PROGRAM FIRST** - Infrastructure is essential, including new technology, employee training, and fundraising. If retaining employees is important, they should have good equipment and comfortable and clean places to work.

**OVERHEAD UNDERREPORTING** - A presentation with very low overhead is suspect. This funding model is unattainable and on the financial statements looks problematic—either the NFP has classified expenses incorrectly, or has other accounting issues.

**FUNDRAISING UNDERREPORTING** - Government grantors subtract out fundraising costs for determining indirect cost rates, so funders carefully calculate the amount of contribution revenue to the expenses to raise the funds.

**UNDERESTIMATING DIFFICULTIES IN “RUNNING A BUSINESS”** - While for profit entities hire business majors, this is not true for NFP—yet they have many of the same issues without the expertise. If we look at for-profit statistics, 20% fail in year one, 30% fail in year two, 50% fail after five years and 30% fail in the 10th year. So, statistically, it never gets any easier! Top 5 failure reasons: no need for services, ran out of cash, wrong team, outcompeted, and cost issues.



FREE WORKSHOP BY  
ANN MACFARLANE

### RUNNING EFFECTIVE NONPROFIT BOARD MEETINGS USING ROBERT’S RULES

Greenwood Branch, Seattle Public Library  
8016 Greenwood Ave N Seattle WA  
Saturday October 13, 2018 1:30– 4:00 PM

Advance registration recommended at:  
[WWW.JURASSICPARLIMENT.COM/SERVICES/EVENT](http://WWW.JURASSICPARLIMENT.COM/SERVICES/EVENT)

Ann Macfarlane has offered entertaining and powerful workshops for 18 years. Robert’s Rules can be fun! She promises you will enjoy the experience and take away great tools for success.

## TAX LAW CHANGES EFFECT NONPROFITS

By Martha A Lindley CPA

### FOR NFPs THAT:

Provide health insurance for employees and pays some or all of the premiums - The tax bill repeals the individual mandate to purchase health insurance, effective as of 2019. Predictions are that health insurance premiums in both the individual and employer group markets will go up, making it more expensive for employers to provide health insurance for employees. Washington State current projections are 22% increase next year.

Pay for transportation fringe benefits The new tax law imposes an unrelated business income tax (UBIT) penalty on the amount tax-exempt employers pay for employees' transportation benefits, such as commuting/parking expenses. (This provision parallels the limit on deductibility by for-profits.) Tax-exempt employers may still subsidize employees' commuting/parking expenses through a bona fide reimbursement arrangement, pre-tax qualified "cafeteria" plans, or compensation reduction agreements, so that the payments are excluded from the employees' W-2s, but nonprofit employers will have to pay UBIT on those amounts. The tax bill also eliminated the personal deduction for commuting by bicycle.

Let employees work remotely Employees (for-profit and nonprofit) will no longer be able to take an individual deduction for home office expenses.



#### Employees earning \$1M+

There will be a 21% excise tax on the compensation of the top 5 highest paid employees.

Have fundraisers Most analysts predict that overall donations to charitable nonprofits will be lower because of the changes: (1) individual income tax rates will be lower, reducing the value of all deductions; (2) state and local tax deductions on Sch A are capped at \$10K, reducing the number of taxpayers who itemize (note: WA does not have state income tax); (3) the law doubles the standard deduction, reducing the number of itemizers (note per the IRS, only 31% of taxpayers are eligible to itemize); and (4) the new law doubles the exemption on estate taxes, which may make the tax-advantages of some bequests less attractive. By doubling the standard deduction, individuals who itemized before, may not do so now. This change is predicted to reduce the number of people who will itemize deductions to 5% of taxpayers, removing the tax incentive for charitable giving for 95% of taxpayers.

The tax bill also raises the giving limits for taxpayers who itemize deductions from the current cap of 50% of adjusted gross income (AGI) to 60% of AGI. This change will enable upper-income taxpayers to contribute and deduct more to the work of charitable nonprofits.

My take on charitable contribution tax reduction: Overall, a higher standard deduction is of great benefit to the 61% of taxpayers that do not itemize—that is good. Upper-income taxpayer can donate 10% more—that is good. Charitable deductions are predicted to decrease from taxpayers that donate for the tax deduction—that is not good.

Tax law is a combination of some benefit, some don't. Some laws make sense, some don't. Taxes and logic don't go in the same sentence.



Other provisions to research if they apply to the NFP: issues tax exempt bonds, has net operating loss carry forwards, university and college tax on investment earnings, provides sport tickets for contributions, or pays family/medical leave.

By Ryan F. Kauzlarich, Senior Audit Manager

## PASSWORDS

Let's be honest, passwords are annoying. We need a password or PIN for everything. We have so many that we can't keep track of them all. We forget to update them and when we do, it's difficult to come up with an effective replacement that we can remember. The painful and irritating password creation/memorization process is more than we can tolerate!

However, to your employer, an effective password is simpler and cheaper than most other forms of security. They provide a direct means of protecting your network and a strong, secure password should be mandatory.

The factors of a strong password are: length, width and depth. A password of at least 7 characters with a mix of uppercase, lowercase, numerals and special characters should be used.

And please, whatever you do, do NOT keep your password written down anywhere near your desk!

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- Consulting, including compliance with federal, state and local funding agencies.

**INSERT—FASB CHANGES ILLUSTRATIVE EXAMPLES**

This newsletter is written by Martha Lindley CPA, providing timely articles for nonprofits. As a national speaker on nonprofit issues and Single Audit compliance since 2000, she personally writes and provides the quarterly newsletter to over 400 nonprofits as a contribution to our nonprofit community.

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