



**SOCIAL IMPACT
COMMONS**

Managing Real/Tangible Property

Stewarding Real and Tangible Assets as Fiscal Sponsors



This work is licensed under a Creative Commons
Attribution-NonCommercial-ShareAlike
4.0 International Public License

This means you can adapt this work and share its contents
freely for non-commercial purposes, provided you credit
Social Impact Commons.

Asta Petkeviciute, Chief Financial Steward
asta@socialimpactcommons.org

Thaddeus Squire, Chief Commons Steward
thaddeus@socialimpactcommons.org



Defining Our Terms

as·set /'aset/

An asset is a resource owned or controlled by an individual, corporation, or government with the expectation that it will generate a positive economic benefit and/or social good impact.

For the purpose of this conversations, *assets* are defined as resources that may be subject to accounting and/or legal definition, and transactional events.

We acknowledge that *assets* may also be understood to be things such as know-how, relationships, networks, experience, etc.



Types of Assets

Asset Classifications

Convertibility

Current Assets

Fixed Assets

Physical Status

Tangible Assets

Intangible Assets

Usage

Operating Assets

Non-operating Assets



Properties of Assets

PRIVATE (Corporations and Individual Persons)	COMMONS (Public Trust/Nonprofit)
Ownership Assets represent ownership that can be eventually turned into cash and cash equivalents.	Stewardship Assets are held in public trust and stewarded on behalf of beneficiaries for greater social good.
Economic Value Assets have economic value and can be bought/sold.	Mission/Social Impact Assets have both economic <i>and</i> mission value.
Resource Assets are resources that can be used to generate future economic benefits.	Resource Assets are resources that can be used to generate future social good benefits.



What's at Stake: Cost and Complexity

The complexity of managing *fixed assets* in the context of projects, which enjoy a semi-autonomous status and may also be transient in relation to the sponsor.

Fiscal sponsors and the systems and capacities they offer are largely focused on providing shared *operating* resources to their projects. This means the focus is on current asset types, such as cash, cash equivalent, accounts receivable, supplies/expendables, deposits, and inventory.

While many fiscal sponsors manage fixed assets that support the sponsor's work, managing fixed assets (such as real, intellectual, material, and investment assets) that support *project* needs a host of other operational and risk management considerations come into play.



Fixed Assets

- **Real Property:** Land and everything attached to it.
- **Intellectual Property:** Ideas, patents, trademarks, creative works, etc.
- **Equipment:** Hardware, software, physical tools, automobiles, etc.
- **Investments:** Endowment, cash/risk reserves, retirement funds, etc.



Fixed Asset Considerations

Fiscal sponsors are largely built to manage *operating* (short-term) assets and programs, so when *fixed* or long-term assets come into play, there are challenging considerations:

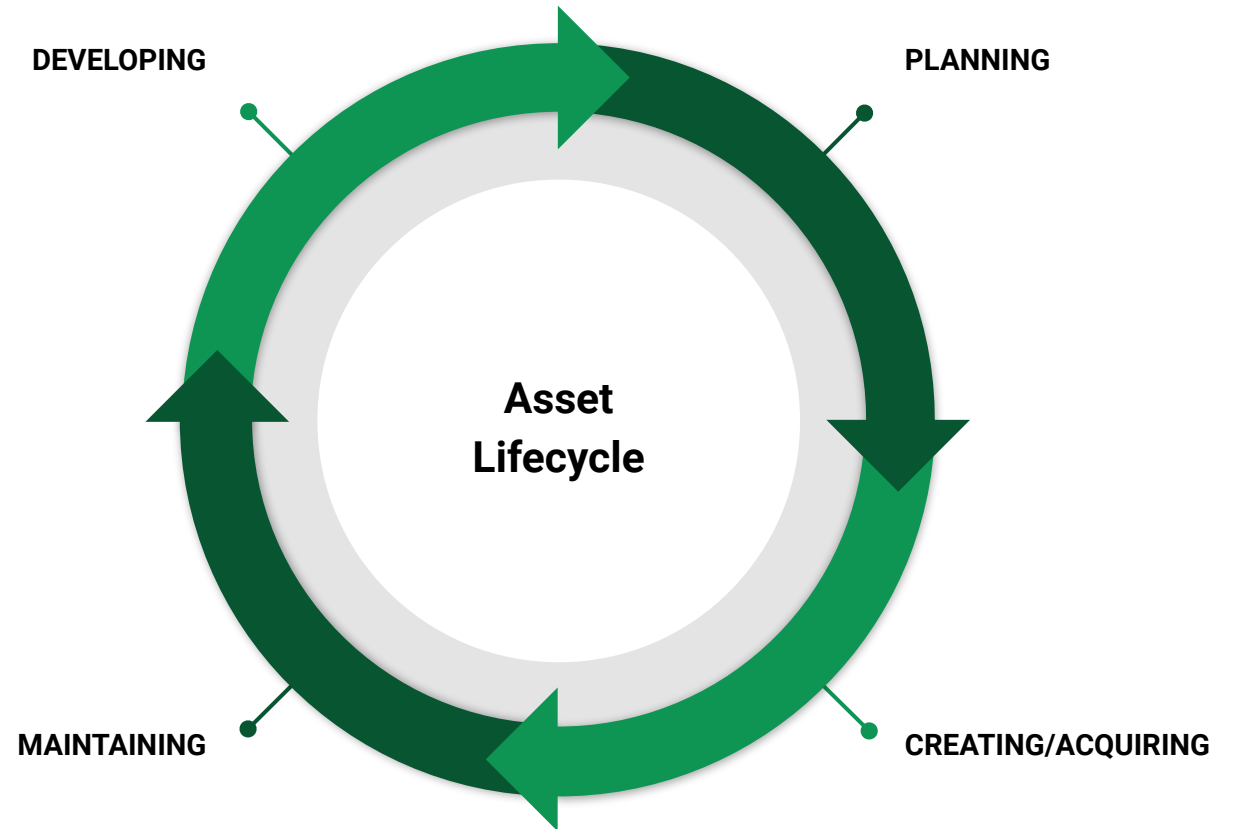
- ***Change of Ownership*** - How does the asset get restructured, reallocated, or transferred when a project exits or dissolves? What is its “portability”?
- ***Ongoing Maintenance*** - What capacities (systems, resources, expertise) are needed to maintain the asset?
- ***Ongoing Risk Management*** - What are the risks involved in holding and stewarding an asset and how do we mitigate them?



Asset Lifecycle

When stewarding fixed assets, fiscal sponsors need to consider not just maintenance and risk management.

We need to consider how we support *intentional building* of the assets (i.e., maintaining the building, growing the endowment, etc.).



Structural & Capacity Solutions

Management Capacity: Are you able to insource or outsource the knowledge and management to provide stewardship, and how are you recovering or sustaining that cost?

Structure: How might legal/formation structure (single entity, multi-entity Model L) help provide *risk mitigation* and *portability* in the event assets need to be restructured?

Accounting: How are you documenting and tracking your projects' fixed assets, and incorporating them into your accounting practices? How are you keeping track of them moving forward?

Compliance/Risk Management: Are you apprised of specific compliance requirements for various kinds of fixed assets, as well as able to insure such assets?



Roles & Responsibilities

Board of Directors: Do you have policies about acquiring/accepting fixed assets on behalf of projects, and are there formal maintenance, compliance, and risk assessment procedures?

Staff: How knowledgeable is your staff team about fixed assets and the operating, maintenance, and development needs they entail? Do you have the capacity to manage fixed assets day to day? Do you clearly communicate with and educate your project staff about how fixed assets work in a nonprofit context?

Project Directors: Are you requiring fixed assets to be reported and documented, if they are not otherwise tracked in regular accounting and financial operations?

Contractors/Vendors/Partners: Do you have the right vendors and expertise available to manage fixed assets, including insurance and compliance needs?



Tangible Property Management

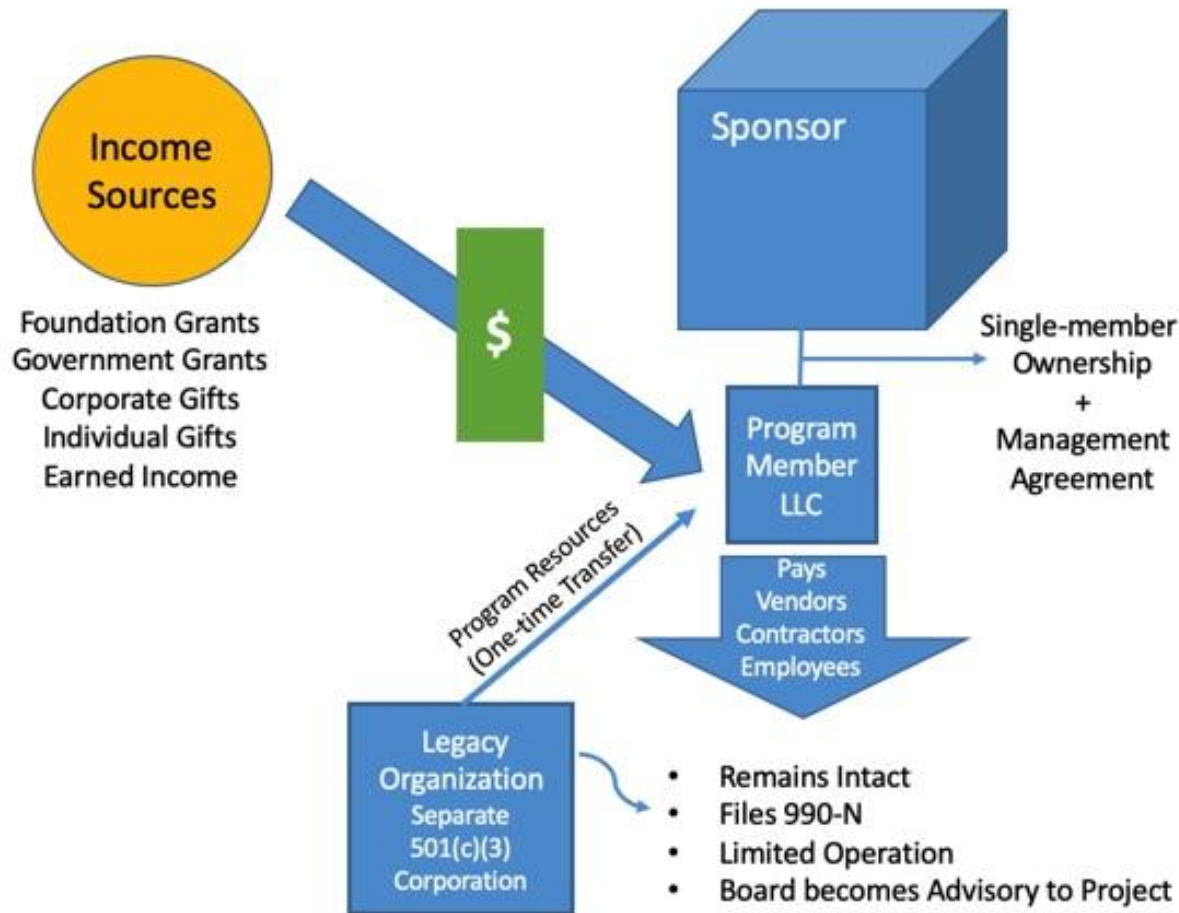
Key decision points:

- What is our capitalization policy (at what dollar amount and years of useful life is an item capitalized rather than expensed)?
- Do approval processes differ for larger purchases?
- How do we keep track of these assets (operationally and financially)?
- Does asset management differ when a grant covers the purchase?
- Are our fixed non-capitalized assets covered by insurance?
- Are these assets monitored regularly (depreciation schedules/inventory tracking)?
- How can one dispose an asset and what documentation do we need?

Document these key decisions and approaches into the written Fixed Asset Management policy!



Model “L” – Disregarded Entity or Single-member LLC



Attributes

- Close, wholly owned program relationship
- Legacy Org’s program is acquired by LLC
- Core Model A services/resources (Model “A-L”)
- Co-fiduciary and co-management relationship
- Board of Legacy Org can be board of LLC
- Boards may be distinct but share common fiduciary
- Sponsor responsible for all legal and compliance
- HR/vendor relationships move to LLC

Potential Benefits

- Consolidated (lower) compliance/insurance costs (Legacy Org reduces/eliminates these costs)
- Programs operated through LLC with sponsor back office
- Legal, compliance and operating risks attach to LLC
- Employee liabilities held by LLC, benefits by sponsor
- “Portability” in the case of spin out
- Legacy Org board remains in place and active

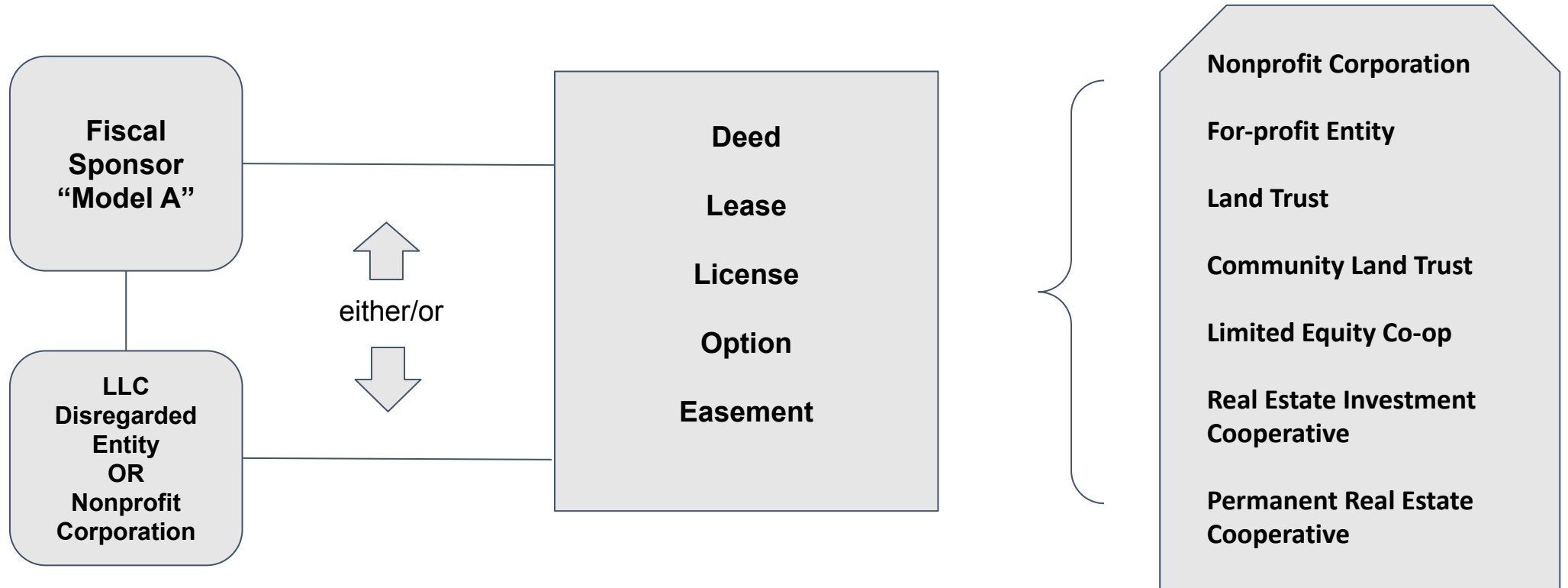
Potential Risks

- Complex model to operate
- Legal, compliance and operating risks contained in LLC
- Legacy Org board still retains fiduciary responsibility
- Dormancy prohibited by IRS, possible challenge
- Liabilities or negative events of Legacy Org

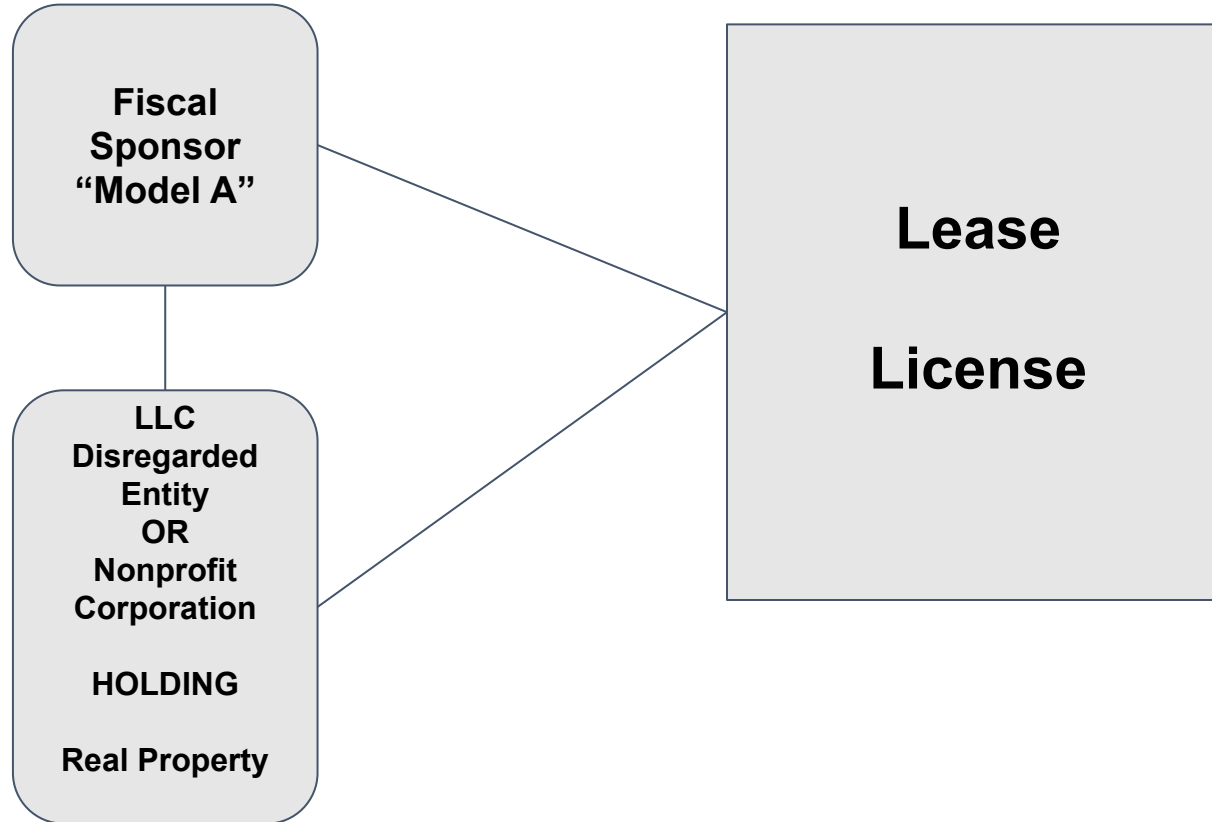
Real Estate & Relationships: Arm's Length

/ˈrē(ə)l əsˌtāt/

Land and everything attached to it.



Real Estate & Relationships



Lease, License & Easement

License: You can come use my land, but I still use it too, and I might be able to revoke this at will.

Lease: You can come use my land, certain parts are just for you, and here is when and how we can terminate this.

Easement (deed restriction): You can come use my land, possibly in perpetuity, even after I no longer own it.



Benefits of Nonprofit Ownership

Tax-deductibility for Donor/Seller: Bargain sales, split-interest gifts (Charitable Remaindered Trusts).

Real Estate Tax Exemption: Depending on local law, real property is exempt for real estate tax, *if used for a qualifying 501(c)(3) charitable purpose.*

Public Trust Stewardship: Depending on the structure of the nonprofit and the model of the real estate holding (ground lease, lease, deed ownership, etc.) the property may be stabilized relative to market.





Thaddeus Squire, Chief Commons Steward
thaddeus@socialimpactcommons.org
215 760 1634

Asta Petkeviciute, Chief Financial Steward
asta@socialimpactcommons.org
617 448 9559

<http://socialimpactcommons.org>

Generous support for the development and work of Social Impact Commons has been provided by:



and

