Top Issues for Not-For-Profits This year

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As management of nonprofit organizations begin to prepare for June 30 year-end audits, it’s a good time to share some of the top concerns for not-for-profits this year. How can not-for-profits reassure donors that their contributions are in safe hands? What key implementation issues on new accounting standards updates are not-for-profits grappling with? Outlined below are four topics that should not be overlooked.

1. **Cybersecurity**

In addition to common hacking risks, not-for-profits that accept electronic contributions are targets for credit card fraud. While retailers collect certain personal information to set up customer accounts and ship goods, not-for-profits often forgo requiring that level of detail to make donating simple. Unfortunately, this makes not-for-profits an easier testing ground for stolen credit card data. Not-for-profit entities with real-time credit card authorization and settlement are even more likely to fall victim because real-time verification makes the stolen data more valuable. These organizations then bear the burden of repaying fraudulent donations in addition to paying fees related to the refunds. Organizations that use electronic methods to accept contributions should consider adopting appropriate controls to ensure revenues are properly recognized and that cash receipts are safeguarded.

2. **FASB Not-for-Profit Financial Statement Presentation Standard**

This past summer Financial Accounting Standards Board (FASB) issued a financial reporting standard for not-for-profits (ASU No. 2016-14), which constitutes the most significant change to not-for-profit financial statement presentation since the mid-1990s. The new standard will simplify and improve how not-for-profits classify net assets and present information about liquidity, financial performance and cash flows. In turn, the financial statements of these entities will provide more relevant information to donors, grantors, creditors and other users.

Given the significance of these changes, it is important for not-for-profit accounting and assurance professionals to familiarize themselves with the requirements of the new standard and consider how the financial statements, as well as the systems and processes used to produce them, will change. Early adoption of ASU No. 2016-14 is permitted and may reduce the complexity of financial statement preparation for not-for-profits whose contribution streams currently affect all three net asset categories and those whose endowment funds currently have material unappropriated earnings or are underwater. Not-for-profit auditors also will be called upon for assistance as their clients begin

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implementing this standard and must be careful not to impair their independence.

3. Currently Effective ASUs

There are several significant Accounting Standards Updates (ASUs) effective for 2016 year-ends. Here’s a quick recap:

- Under FASB’s new going concern standard (ASU No. 2014-15), management will now have to evaluate and disclose whether there is substantial doubt about an entity’s ability to continue as a going concern.
- To clear up confusion among not-for-profits regarding the previously amended consolidation requirements, FASB issued ASU No. 2017-02 to clarify when a not-for-profit that is a general partner in a limited partnership (or similar entity) should consolidate a for-profit limited partnership.
- FASB simplified the presentation of debt issuance costs via ASU No. 2015-03, which aligns the balance sheet presentation requirements for debt issuance costs with those of debt discounts.
- Also simplified, and aligned with International Financial Reporting Standards (IFRS), are subsequent measures of inventory. Under ASU No. 2015-11, inventory should be measured at the lower of cost or net realizable value.
- Fair value disclosure requirements have changed for investments measured using the net asset value per share practical expedient. ASU No. 2015-07 removes the requirement to categorize those investments within the fair value hierarchy.

4. Data-Driven IRS Inquiries

Data-driven decision-making for the Internal Revenue Service Exempt Organizations (EO) division involves running over 200 data queries on Form 990-series returns to ascertain whether a return might warrant examination. The IRS has experienced return change rates over 90 percent since implementing the new EO audit selection methodology. Practitioners who prepare Form 990-series returns should focus upon accuracy and completeness.

For a deeper dive into these important issues, you may want to view the archived webcast, Not-for-Profit Entities: 2017 Audit and Accounting Issues, hosted by the AICPA’s Not-for-Profit Section.

Program Reductions Are Mandated – What Can a Nonprofit Do?

By Eugene Fram (Nonprofit World Volume 35 Number 2)

The board of directors has decreed there will be program cuts. Regardless of the rationale, be it financial or mission-related, the proposed loss in a common challenge. Here are some key issues you need to face and steps to make the process easier.

You must choose which programs to cut and which to save.

Use your mission statement as the ultimate measuring stick. The mission statement should provide the overarching values and purposes by which you measure each program’s efficacy.

Evaluate each program in terms of its benefits to clients and its projected revenues and costs. Even with some financial loss, you can justify a program’s retention if it’s uniquely qualified to serve users who can’t access it elsewhere.

A push to identify new funding sources may help prolong the life a program that is at risk.

You may be able to save some programs by modifying them.

Before cutting a program entirely, see if you can partner with other organizations to keep the essence of the program going.

Understand that eliminating a program is a public relations challenge.

If you must eliminate a program, prepare a statement that puts the cut into context and emphasizes all the good you’ll still be able to accomplish. Be sure all board and staff members stay “on message” with regard to the reduction process.

Alert funders and other stakeholders about the reduction well in advance of the public announcement.

Designate the CEO or a qualified board member to respond to media inquiries. Emphasize that everyone else should refer the media to this spokesperson.

Be prepared for a storm of protests. Program reduction is divisive. Stakeholders get angry; there may be resignations of both board and staff members. Clients may move to other organizations in protest. However, if the action is well conceived and presented, a positive board/management consensus will promote the organization’s stability and allow opportunities for reasoned growth in the future.
FAQ – How Do I Get a Sales Tax Exemption for a Non-Profit Organization?

Charitable organizations may be entitled to a PA Sales Tax exemption under the Institutions of Purely Public Charity Act of 1997. It is not mandated that a nonprofit organization be qualified by the federal government in order to be eligible for a PA Sales Tax exemption. To apply for exempt status, an organization should submit a completed REV-72 form (Application for Sales Tax Exemption) to the PA Department of Revenue for evaluation. REV-72 can be found at http://www.revenue.pa.gov/FormsandPublications/FormsforBusinesses/Documents/Sales-Use%20Tax/rev-72.pdf

Organizations must also submit a copy of its IRS 990 Form; if you do not file with the IRS, a copy of the treasurer’s year-end report. A copy of organization’s Articles of Incorporation must also be submitted; if the organization is not incorporated, include the governing bylaws. Each applicant must also provide a dissolution statement.

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Your PA Sales Tax exemption is limited to purchases made on behalf of the institution’s charitable purpose. The purchase must be made in the name of the institution paid by funds from the organization. The institution must issue an exemption certificate (REV-1220) to the seller in lieu of the payment of tax.

If you are engaging in fundraisers where there is a sales tax liability (selling to the general public) you may be required to register for a sales tax number; you can do this at www.pa100.state.pa.us.

If approved, your sales tax exemption certificate will exempt your organization from taxable purchases used in the operation of your nonprofit organization.

If you have additional questions, you can call the Department of Revenue’s exemption unit at 717-783-5473.

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Eggs and Education Roundtable

June 20, 2017
Holiday Inn – Downtown Napa/Sonoma Rooms
7:30am Registration
8:00am – 9:00am Program

Please look for further information in the mail on this Roundtable Session. We are working on the topics and will be sending out your invitation very soon.

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The activities of a not-for-profit organization are under increased scrutiny. There was a time when a not-for-profit organization's only concern was its primary charitable mission. Today, not-for-profit organizations face increasing public oversight and governmental regulations.

To be successful, your organization must address these issues in addition to maintaining relationships with donors, government agencies and of course your Board of Directors. The ability of your organization to grow and continue to fill its charitable mission depends on the quality of the professional advice your organization receives.

Wessel & Company is recognized as a leader in the Not-For-Profit world. We have experience and an extensive knowledge base coupled with a strong commitment to our clients. We provide a vast range of professional services that includes:

- **Auditing**, in accordance with Generally Accepted Government Auditing Standards
- **Specialized Compliance Auditing (A-133)** of federal funds
- Developing **Cost Allocation Plans**
- Writing **Policies And Procedures Manuals** specifically for not for profits
- Facilitate **Strategic Planning** sessions
- Providing **Seminars** for the staff and board members of not for profits organizations
- Structuring **Planned Giving** to meet the needs of the organization and donors
- **Selection Of Software** to meet the unique needs of the not-for-profit organization
- Preparation of **IRS 990 tax returns**

Our professionals go beyond providing outstanding services to the not-for-profit industry.

At Wessel & Company we are recognized for our commitment and service.

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