Nonprofit Navigator

Spring 2019

Tax reform and tax-exempt entities
By Colette Kamps, CPA

If you are thinking that you are a nonprofit organization and therefore tax reform doesn't apply to you, you may be incorrect. There are various portions of tax reform that either specifically address nonprofit organizations or apply to both for-profit and nonprofit entities. Here is a summary of those provisions:

Unrelated business taxable income – qualified transportation fringe benefits (QTFs)

If you provide parking to your employees, you may have to determine the expense related to this and report the amount on a Form 990-T as taxable income. Do you have reserved parking spots for your employees? If not, is your parking lot mainly used by your employees (with the remainder for the general public)? If the answer to either of these is "yes," you may be subject to this tax. How do you determine the expenses to allocate to this parking fringe benefit? What if you are located downtown and pay for your employees to park in the parking garage? Attend our next Nonprofit Learning Series in May 2019 for more information on this. You can sign up at **www.hhcpa.com/cpeopportunities**.

Tax on investment income of certain educational institutions

Certain educational institutions will be required to pay 1.4% tax on net investment income. Net investment income will include:

- Interest,
- Dividends,
- Rent income,
- Royalties,
- With deductions for ordinary and necessary expenses for the production of that income.

Tax on excess executive compensation

This is a new tax of 21% imposed on executive compensation greater than $1 million for each of the top highest paid employees (assuming the organization has any employees paid more than $1 million). This will obviously apply only to very large nonprofit organizations and foundations.

Unrelated business taxable income – more than one business

See our Nonprofit Navigator article in the Winter 2019 issue at **www.hhcpa.com/newsletters** for details.

It's very likely that the only taxable issue listed above that applies to you (or may apply to you) is the QTF issue. The IRS has issued detailed guidance to help, but you'll need to be ready for this when filing your 2018 Form 990.

If you have any questions, Colette can be reached at (480) 839-4900 or ColetteK@hhcpa.com.

Fast Facts

- 150+ team members
- 50% are CPAs
- Arizona's largest locally owned accounting firm
- Your money stays in the state
- Well-known leader in CPA services for AZ nonprofits
- Nonprofit CPAs volunteer on boards and committees for local charities
- Your team provides complimentary CPE and customized presentations for nonprofit boards and staff

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Are you making these financial statement errors?
By Sharlynn Garza, CPA

We are in planning mode for our nonprofit clients with June and September year-ends. As we meet with clients, we typically discuss any changes over the prior year, go over the prior year management letter comments, if any, and discuss how they have been addressed or corrected. A lot of these management comments relate to errors with how certain transactions are being accounted for. Below is a list of common financial statement errors that we have seen frequently. Is your organization making some of these mistakes?

Failing to record a bequest. Bequests should be recognized when the will has been declared valid by the probate court. Most times we find that bequests have not been recorded because the distribution had not been received yet or there is uncertainty as to the amount to recognize due to an estate that still needs to be liquidated. In this case, the organization should record a reasonable estimate from the trustee of the estate.

Failing to record a grant award or promise to give that has been awarded. Sometimes organizations will be notified of a promise to give or grant award just prior to year-end but the funds are to be received at a later date. In this scenario, we see organizations not recording this transaction on the date they were notified but rather recording the transaction when the funds from the grant or promise to give has been received. If the grant or contribution is restricted, then this amount would be included in temporarily restricted net assets at year-end.

Recording restricted grants as deferred revenue. We don't see this error quite as often as we have in the past; however, it still comes up from time to time. When a grant is restricted for a specific purpose and is in substance a restricted contribution, then the grant should be recorded as a restricted contribution in the period it is received. Any unused amounts remaining at year-end should be included in net assets with donor restrictions at year-end.

Incorrectly allocating management and general expenses to program activities. There are certain management and general costs that should not be allocated. One item that is often improperly allocated is accounting expenses. For example, if your organization pays for audit services, this cost would be considered 100% management and general; however, some organizations allocate a portion of these costs to program activities. We have seen this treatment for legal expenses as well. The guidance has been clear that these expenses should be classified as management and general.

Another line item that sometimes gets classified incorrectly as program activities is advertising costs related to ticket sales or admissions to a museum, zoo, performing arts organization or similar organization. Accounting standards state that expenses incurred when soliciting funds other than contributions or membership dues should be classified as management and general.

If you have any questions, Sharlynn can be reached at (480) 839-4900 or SharlynnG@hhcpa.com.

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Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.