Legacy Advisor

Fall 2010 Issue No. 10-2

NOT-FOR-PROFIT ORGANIZATIONS

Not-for-Profit Roundtables

The Illinois CPA Society's (ICPAS) Not-for-Profit Committee sponsors a series of Roundtables to provide opportunities for financial professionals who are involved with nonprofit organizations, both on the public accounting and organization sides, to network, learn and share information. Rose Doherty is the chairperson of the Not-for-Profit Roundtable Subcommittee.

The next ICPAS Not-for-Profit Roundtable is scheduled for November 4, 2010, when Thomas Brean, CPA will be presenting and facilitating a discussion on why the public is interested in evaluating nonprofit organizations, *who* the "watchdogs" are and what they do, what the potential benefits and risks are to your organization, and what you can do to minimize those risks.

For the first half of each Roundtable session, participants share and discuss a variety of issues affecting the nonprofit industry in an open forum. Participants are encouraged to bring burning questions, current challenges, and best practices for discussion. In the second half of the aforementioned gathering, participants will discuss the groups that are watching and evaluating charities and other nonprofit organizations.

The November 4 program runs from 8:30 a.m. to 10:30 a.m. at the ICPAS office at 550 West Jackson Boulevard, Suite 900 in Chicago, and is free of charge. To register call ICPAS at 800-993-0393. You do not need to be an ICPAS member to attend.

Mark your calendars for the following upcoming Roundtables as well: January 27, 2011 and March 10, 2011. The topic for the January 27 Roundtable will be *Tax and Regulatory Compliance Filing*. The March topic will be announced closer to the date.

Let us know if you have any questions, topic suggestions, or need any additional information.

Legacy News

Rose G. Doherty, CPA

If you have not already done so, please make a note of our new Chicago office address: 311 South Wacker Drive, Suite 4000, Chicago, IL 60606. Our phone and fax numbers remained the same, as did all of our email addresses.

We are committed to keeping our staff up-to-date and on top of the issues and challenges facing nonprofit organizations. We recently hosted an in-house seminar for our nonprofit team. Additionally, we are also pleased to assist your organization with Board training. Let us know if we can help.

We have begun posting each *Legacy Advisor* newsletter article individually on our website in the *Publications* section to make it easier for you to reprint and/or to share with colleagues.

We recently posted *News Flash 10-5 Indiana Mandatory Unclaimed Property Reporting* on our website. If your organization is based in Indiana or has an Indiana location, be sure to take a look.

We welcome guest contributors to the *Legacy Advisor*. If you have any article ideas, please contact Marketing Director Julie Tucek at jtucek@legacycpas.com or 312-384-4292.

In addition to our large nonprofit practice, our Firm provides audit and tax services to employee benefit plans (including 401(k) and 403(b) plans), labor organizations, villages, municipalities, school districts, commercial entities, and other types of organizations. Contact Julie Tucek to discuss any opportunities. We always appreciate your referrals.

This issue was edited by Rose G. Doherty, CPA. Rose can be reached at 312-384-4223 or rdoherty@legacycpas.com.

On the Inside...

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Promises to Give and Bad Debt

Michael West, CPA

In the not-for-profit industry, contributions are often the lifeblood of an organization. Therefore it is essential that an organization optimize and capitalize on any potential development opportunities. Frequently, an organization receives only a promise from a donor to make a contribution at some future time and place. Does this promise have an accounting effect?

At first glance, it appears that no real transaction has taken place. Generally, revenue is recognized by an organization when an exchange transaction has occurred. In most cases, an exchange transaction occurs when an organization performs or delivers goods to a customer.

However, a contribution is not an ordinary exchange transaction. A contribution is generally a conferment of an economic benefit on an organization with little, if any, value given in return. Since a contribution lacks the characteristics of an ordinary exchange transaction, the accounting treatment of a contribution for nonprofit organizations is unique. Contributions are recognized as revenue or gains in the period of receipt or in the period when the promise to give is made.

The recognition of promises to give depends on the character of the promise made. An organization must first determine if the promise to give is unconditional or conditional. A promise to give is unconditional if it indicates an unconditional intention to give that is legally enforceable. An example of an unconditional promise is an award letter that announces a donor's intention to contribute a specific amount of money at a specific time. A promise to give is conditional if the receipt of the contribution depends upon the occurrence of a future event. An example of a conditional promise is an award letter that announces a donor's intention to make a contribution, but is subject to the donor realizing a net operating profit in the current year.

Depending on whether the promise is unconditional or conditional, promises to give must be recognized as revenue in the period in which the promise is received by an organization. Unconditional promises are recognized as revenue when received. Conditional promises are recognized as revenue *only when* the conditions upon which they depend are substantially met. In the aforementioned example, the organization may find that the condition is substantially met shortly after the donor's year end operating results are released that indicate a net operating profit has in fact been achieved.

In either scenario, an organization should ensure that, prior to recognizing contribution revenue, it has obtained "sufficient evidence in the form of verifiable documentation that a promise was made and received," in accordance with generally accepted accounting principles. The availability of documentation is an important factor in determining the legitimacy of a donor's commitment to follow through on a promise.

However, not all promises to give must be reduced to writing. Mere oral agreements also qualify as promises to give. However, an organization should evaluate *more* factors when considering whether to recognize oral promises, including the donor's relationship with the organization, past promises made by the donor, and the circumstances in which the oral promise was made.

When a promise to give is recognized as revenue, the organization should record a contribution receivable for the same amount. Generally, the organization should record the receivable at the stated amount of the promise. However, for promises to give that are expected to be received beyond one year of the financial statement date, an organization must value the receivable at the present value of the stated amount promised at the date the donor made the promise.

In addition, an organization should periodically evaluate its contributions receivable for any uncertainty as to whether the receivables are fully collectible. Especially considering the current economic environment, an evaluation of receivables is an important process in accurately measuring the financial position of an organization at a given point in time. To illustrate the difficulties that contributors are experiencing, according to the American Bankruptcy Institute's Annual Business and Non-Business Filings by State, there were 2,466 business bankruptcy filings in the State of Illinois in 2009. This figure increased approximately 58% from 2008 and more than doubled the 2007 figure.

An organization must record an allowance for uncollectible receivables if both of the following conditions are met: (1) it is probable that receivables recorded at the financial statement date will not be collected *and* (2) the uncollectible amount can be reasonably estimated. Management may base its estimate on the organization's past experience, a donor's ability to pay, or an overall evaluation of current economic conditions. While an allowance is often viewed negatively from a financial reporting standpoint, a properly estimated allowance ought to match bad debt expense with its related contribution income. Periodic monitoring of allowances allows an organization to more meaningfully project and even budget bad debt expense for a given fiscal year. This puts the organization in a more informed position, so that significant losses in years of higher donor defaults do not take anyone by surprise.

By Michael West, CPA, Supervising Senior, Chicago office
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Sources: FASB ASC 310-10-05-4; 310-10-25-10; FASB ASC 310-10-35-7; FASB ASC 310-10-35-10

IRS Offers One-Time Relief to More Than 300,000 Small Charities

On July 26, 2010, the Internal Revenue Service (IRS) announced that small nonprofit organizations with filing due dates between May 17, 2010 and October 15, 2010 at risk of losing their tax-exempt status because of failure to file required returns for 2007, 2008 and 2009 can preserve their status by filing returns by October 15, 2010.

In a press call with reporters, IRS Commissioner Douglas Shulman said that they want to do everything possible "to help organizations comply with the law and keep their valuable tax exemption."

Two types of relief will be available for small tax-exempt organizations:

- a filing extension for the smallest organizations which are required to file Form 990-N (the e-Postcard) and
- a voluntary compliance program for small organizations eligible to file Form 990-EZ.

The Pension Protection Act of 2006 (Pub. L. No. 109-280) changed the filing requirements for smaller exempt organizations, effective at the beginning of 2007. It required all exempt organizations, except churches and church-related organizations, to file an annual return with IRS.

For more information, visit www.irs.gov and search "IR-2010-87." The list of affected charities is also published at http://www.irs.gov/charities/article/0,,id=225889,00.html.

As reported on the IRS website, July 26, 2010

IRS Releases Form to Help Calculate New Health Care Tax Credit, Announces How Tax-Exempts Will Claim Refundable Credit

On September 7, 2010, the IRS announced the release of a draft version of new Form 8941 that tax-exempt organizations and small businesses will use to calculate the small business health care tax credit during the 2011 filing season. The credit is designed to encourage small employers, including tax-exempt organizations, to offer health insurance coverage or maintain the coverage they currently offer their employees.

While small businesses will include the amount of the credit as part of the general business credit on their tax returns, tax-exempt organizations eligible for the refundable credit will claim the credit on a revised Form 990-T. The revised Form 990-T will enable eligible tax-exempt organizations to claim the tax credit even though they owe no tax on unrelated business income.

To read the entire release, go to: http://www.irs.gov/newsroom/article/0,,id=227404,00.html.

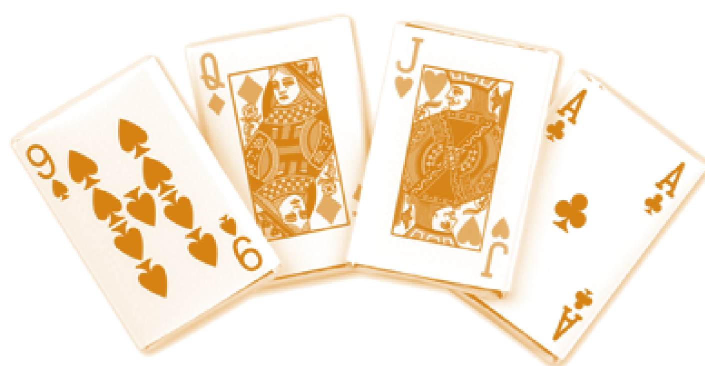
As reported in the IRS online newsletter, Issue No. 2010-21

IRS Releases Gaming Publication

The IRS has released Publication 3079 (rev. June 2010), *Tax-Exempt Organizations and Gaming* (http://www.irs.gov/pub/irs-pdf/p3079.pdf.) The publication explains the potential effect that gaming may have on an organization's federal tax-exempt status and the special reporting responsibilities of organizations that engage in gaming activities.

To read all or part of this 40-page guide, visit the above link.

Let us know if you have any questions on how this relates to your organization.



Form 990 – Moving Forward


Megan Mulherin

If nothing else, the recent revisions to Form 990 provided insight as to how the IRS expects a nonprofit organization to comply with regulations, and they have resulted in an expanded understanding of best practices for tax-exempt organizations, as well as greater transparency for donors and members.

For example, the Form asks whether an organization has written policies concerning conflicts of interest, document retention and destruction, gift acceptance and whistleblowers. Though the absence of these policies does not necessarily endanger the organization's tax-exempt status, the IRS believes that having such policies, "generally improves tax compliance." During the 2008 tax year, many organizations did not have some or all of the aforementioned policies in place. Officers and directors have since been further educated on the effectiveness of these policies and have subsequently developed and instituted them. These organizations have seen positive results including the comfort of added safeguards and additional oversight and involvement from those charged with governance.

The expanded Form also provides current and potential donors and members the ability to look deeper into the organization. The Form sheds a bright light on gifts to and from the organization, political activity, and fundraising, to name a few. For charities, current donors can ensure that the organization is utilizing funds in the manner promised to them, and potential donors can assess whether the organization's goals and activities are in line with their own. For associations and other similar organizations, dues-paying members can see how the organization is spending their money and if any part of it is being used for a political cause. As hoped, the increased transparency is benefiting not only the IRS but also the local communities served by the organization.

Although the first year was challenging for most organizations as many more questions had to be asked and answered, hopefully you are seeing some of the benefits described above as a result of the expanded disclosures. Continue to work to implement the policies mentioned in the Form and work to provide greater depth to other Form questions - this will keep your organization moving in the right direction. Let us know if you have any questions.

By Megan Mulherin, Supervising Senior, Chicago office mmulherin@legacycpas.com

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