

# Legacy Advisor

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## NOT-FOR-PROFIT ORGANIZATIONS

### FASB Adds Two New Projects to Agenda



Eileen Brassil, CPA

The Not-for-Profit Advisory Committee (NAC), an advisory group to the Financial Accounting Standards Board (FASB), has recommended changes in accounting rules that would enable not-for-profit organizations to better report and explain their finances to donors and other interested parties. The NAC's recommendations were submitted to the FASB chairman in a formal agenda request by the FASB staff. As a result, the FASB has added two new projects to its agenda which is aimed at improving financial reporting for nonprofits.

#### NAC's key recommendations included:

- Revisiting current net asset classifications, and how they may be relabeled or redefined, in conjunction with improving how liquidity is portrayed in a not-for-profit's statement of financial position and related notes;
- Improving the statements of activities and cash flows to more clearly communicate financial performance;
- Creating a framework for not-for-profit directors and managers to provide commentary and analysis about the organization's financial health and operations—somewhat similar to the “Management Discussion and Analysis” provided by publicly traded companies in their annual reports—to help the nonprofits describe in writing their own financial story; and
- Streamlining, where possible, existing not-for-profit-specific disclosure requirements to improve their relevance and clarity for the reader.

Of the two projects added to the FASB agenda, one involves standard setting and the other involves research. The standard-setting project will focus on the financial statements and related notes unique to nonprofits. It will “re-examine the existing standards for financial statement presentation by not-for-profit organizations with a focus on improving the current net asset classification scheme and information provided in financial statements and notes about an organization's liquidity, financial performance, and cash flows.”<sup>1</sup>

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### Legacy News

We are looking forward to attending Association Forum's Holiday Showcase on December 15 at the Hyatt Regency Chicago. Please stop by Booth #645 to visit with Legacy Partner Rose Doherty and Marketing Director Julie Tucek. We always enjoy seeing friends and colleagues at this annual, festive day-long event. New this year, attendees can schedule a morning appointment to meet with exhibitors. Visit [holidayshowcase.org](http://holidayshowcase.org) to see this new option and to book a meeting.

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 side, to network, learn, and share information. Rose Doherty continues as chairperson of the Not-for-Profit Roundtable Subcommittee. The next Roundtable is scheduled for January 19, 2012. The topic is Allocation of Functional Expenses (for more on functional expenses, see our article on page 3). The programs run from 8:30 a.m. to 10:30 a.m. at the ICPAS office at 550 West Jackson Boulevard, Suite 900 in Chicago and are free of charge. You do not need to be an ICPAS member to attend.

We are grateful for your referrals and your confidence in our people and our work. In addition to our large nonprofit and association practice, we also audit 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 at 312-384-4292 or [jtucek@legacypas.com](mailto:jtucek@legacypas.com) if you would like to discuss any opportunities, or if you have any suggestions or contributions for this publication.

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## Worker Classification – What You Should Know

Organizations looking to reduce expenses by hiring contingent workers may ultimately pay more than anticipated if those workers are not properly classified on employer employment tax returns. A contingent worker is defined as a temporary or part-time worker, usually one working under contract for a fixed period or a specific project. The IRS began a three-year audit of 6,000 U.S. companies in February 2010, focusing on how employers classify independent contractors, to ensure correct payment of required employment taxes funding Social Security and Medicare benefits.

Additionally, federal and state officials are enacting stiffer penalties for worker misclassification and aggressively pursuing companies positioning employees as independent contractors as a way to help offset record budget deficits. President Obama's 2010 budget forecasted that the federal effort alone will generate at least \$7 billion dollars over ten years.

In general, an employer/employee relationship exists when the worker is required to comply with the employer's instructions regarding when, where, and how to work. The IRS has established a 20-factor test to determine the right to control and direct a worker and identified three categories to assess in determining worker classification. These categories are behavioral (Does the company control or have the right to control what a worker does and how the worker performs the job?), financial (Are the business

aspects of the worker's job controlled by the payer?), and type of relationship (Are there written contracts or employee-type benefits? Will the relationship continue and is the work performed a key aspect of the business?).

There are special benefit plan issues that could arise from worker misclassification. If the IRS determines an employer/employee relationship exists, then such individuals may acquire benefit plan participant status, requiring the employer to pay an additional expense or employer contributions to its benefit funds. Other issues include benefit plan disqualification and ERISA litigation.

To protect your organization from litigation and/or significant penalties, research the law, evaluate the relationship and degree of right to control, and develop and implement guidelines to prevent worker misclassification. Some examples include not allowing contingent workers to identify themselves as company employees or have company business cards, not permitting contingent workers to supervise company employees, not providing training other than basic orientation to contingent workers, and limiting the duration of contingent worker engagements.

To read more, visit [IRS.gov](http://IRS.gov) and search Employee vs. Independent Contractor. If you have questions or would like us to work with your organization to evaluate worker classification, please let us know.

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The research project will study other means of communication that nonprofit organizations currently use in telling their financial story. Specifically, the project will review best practices followed by nonprofits and how such communications enhance the understanding of donors, creditors, and other stakeholders about the financial health and performance of the organization. More information about the Not-for-Profit Advisory Committee is available at [www.fasb.org](http://www.fasb.org).

By Eileen E. Brassil, CPA, Partner, [ebrassil@legacypas.com](mailto:ebrassil@legacypas.com)

<sup>1</sup>Cohn, Michael. "FASB Adds Nonprofit Projects to Agenda." Accounting Today. [http://www.accountingtoday.com/news/FASB-Adds-Nonprofit-Projects-Agenda-607551.html?ET=webcpa:e1942:230645a:&st=email&utm\\_source=editorial&utm\\_medium=email&utm\\_campaign=WebCPA\\_Daily\\_111011](http://www.accountingtoday.com/news/FASB-Adds-Nonprofit-Projects-Agenda-607551.html?ET=webcpa:e1942:230645a:&st=email&utm_source=editorial&utm_medium=email&utm_campaign=WebCPA_Daily_111011). 9 Nov. 2011.

## Minnesota Office Move

The Minnesota office of Legacy is moving to a new location. Effective December 19, 2011, our new address will be 6800 France Avenue South, Suite 550, Edina, MN 55435. Our phone and fax numbers will remain the same.



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## Functional Expenses

Generally Accepted Accounting Principles and certain Internal Revenue Service filings require nonprofit organizations to report expenses by functional category. The categories are program, management and general, and fundraising. Most often, organizations only perform a retrospective look back on these allocations when asked by their auditor. Given the attention functional reporting has received in recent years, management should place greater emphasis on this reporting and review allocation methodologies more frequently.

### Some common mistakes that nonprofits make include:

- Allocating little or no expense to fundraising when the organization receives contributions
- Reporting low management and general and fundraising expenses to give the appearance of higher than actual program spending
- Having no regular tracking mechanism in place for indirect expenses
- Blindly using the same allocation percentages as the prior year
- Failing to allocate the salary of an employee who has multiple duties in multiple categories

In an effort to avoid these pitfalls, there are several recommendations for tracking expenses. For direct expenses, Quickbooks users can try setting up classes or modifying the chart of accounts to add accounts for each functional classification. For indirect expenses, your organization should perform regular time studies for allocation of employee salaries and benefits, analyze usage of space and use square footage percentages for expenses such as rent, utilities, and depreciation, and choose a percentage of direct costs for other expenses.

Note that different application methodologies can be used for different expenses and the process is unique to each organization. However, ensure the methods chosen are reasonable, consistent from year to year, and documented. Finally, make time to perform a review of this reporting annually as it can make the difference between strong and weak accounting systems.

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We wish everyone a very happy holiday season, and we look forward to continuing to serve you in the new year!

## IRS Notes

- Beginning in tax year 2011, employers were originally required to report the total value of an employee's health insurance coverage on an employee's Form W-2. The IRS has since deferred the requirement until 2012 to give employers additional time to make changes to payroll systems or procedures. However, the 2011 Form W-2 will include the codes that employers may use to report the cost of coverage under an employer-sponsored plan if they are prepared to begin reporting in 2011. This reporting is for informational purposes only. The IRS has stated that the goal is to show employees the value of the coverage. It is expected that the value will include health, dental, vision, HRA, and HSA.
  - The IRS issued Revenue Procedure 2011-52, which covered inflation adjustment items for 2012. Items of interest to tax-exempt organizations include adjustments affecting the treatment of dues paid to agricultural or horticultural organizations, insubstantial benefit limitations for contributions associated with charitable fundraising campaigns, and the reporting exception for certain exempt organizations with nondeductible lobbying expenditures.
  - A reminder for tax preparers to renew PTINs on time: Notice 2011-80 states that PTINs must now be renewed on a calendar year basis.
  - The IRS is now posting a list of organizations that have had their federal tax-exempt status automatically revoked for failing to file an annual information return or notice for three consecutive years. The list was posted on September 8, 2011 and will continue to be updated by the IRS.
- For more information on any of the above topics, visit [irs.gov](http://irs.gov).*

## Legacy Partners Attend Educational Conferences

We are committed to keeping our staff up-to-date and on top of the issues and challenges facing nonprofit organizations. Members of our Firm attend conferences and follow up with in-house seminars for our nonprofit team.

Most recently, Partner Rose Doherty, CPA attended the Illinois CPA Society's Not-For-Profit Conference on Thursday, November 10 in Rosemont. Topics included: Accounting and Auditing Updates, ASC 740 and Tax Updates, Corporate Governance, Legal Updates, and more.



Partner Paul Doetsch, CPA, CMA attended the American Institute of Certified Public Accountants (AICPA) National Not-For-Profit Industry Conference in Washington, DC in June. Speakers at the conference addressed the complex challenges faced by the not-for-profit community, particularly in this economy, with critical training and the latest updates on auditing, accounting, tax, management, operational analysis, and new strategies to enable organizations to thrive in this economic climate.

Both of these conferences are always an excellent opportunity to learn from and network with other association leaders and service providers.

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