

Legacy Advisor

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NOT-FOR-PROFIT ORGANIZATIONS

Form 990 Update

On February 1, 2006, the IRS released the revised 2005 Form 990 for tax-exempt organizations.



Rose G. Doherty

Not only is the new form two pages longer than the 2004 return, the form now includes new questions about compensation and benefits for current and former officers, directors, trustees, and senior staff of the organizations required to file the form. It also now includes a question about whether an organization has a written conflict of interest policy (see our article in Legacy Advisor Summer 2005, Issue No. 05-2 addressing conflict of interest policies).

As you know, the IRS has recently focused on identifying and halting abuses by tax-exempt organizations such as excessive compensation and benefits to officers and insiders. The new form is reflective of the IRS's concerns.

Part V of the form is now two separate sections; one for current officers and one for former officers. The section on current officers includes new questions on how many officers are permitted to vote at board meetings, whether any listed officers are related through family or business relationships and whether listed officers receive compensation from any other related organization. Information regarding compensation and benefits (including loans and advances) of former officers must be reported in the new section.

The form also includes a new question on whether the organization maintains a foreign office or has a financial account in a foreign country.

Although these changes are relatively minor for 2005, a major revision of Form 990 is still in the works. Significant changes are expected to be made, but the publication date for those changes is still unknown.

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Legacy News

We are pleased to announce that Legacy Professionals LLP has joined Polaris International, a select group of 200 independent chartered and certified public accounting firms located throughout the United States and around the world. The organization was formed for the purpose of sharing expertise, information, and techniques for the benefit of all member firms and their clients.

Only firms who can meet the demanding standards of Polaris International are permitted to become



members. Firms must maintain the highest of standards in such areas as organizational structure, professional personnel, technical expertise and others. We are proud of our membership and our commitment to professional excellence. Visit our website for further information on Polaris.

In other Firm news, we have launched a new and improved website. Visit www.legacypcpas.com to check it out. We will continue adding links to the Not-For-Profit Resource page, where you can count on quick access to information you need to stay current. Let us know if you want any websites added to this section.

Our 2006 Rates and Limits Release (see page 2 for more information) is posted on the Legacy home page, as is a link to our Annual Tax Releases. Visit the site to bookmark for future use or to print the releases!

We had a great visit with many clients and friends of the Firm at the Association Forum's Annual Holiday Showcase on December 13 at the Hyatt Regency in Chicago. See page 3 for a picture of our team at the Legacy Booth. Plans are already in the works to attend the 2006 Holiday Showcase scheduled for December 12, 2006.

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Qualified Sponsorships

Many non-profits take advantage of sponsorships to help cover the costs of events, publications, general expenses, etc. If the sponsorship activity does not actively solicit business for the sponsor, but merely gives the sponsor recognition for the sponsor's support (sponsorships can be monetary or in-kind in nature) then the sponsorship probably should be classified as a qualified sponsorship. This is an important distinction because if the line is crossed into an attempt at selling a sponsor's product, then the sponsorship is considered advertising, which is

often subject to taxes (unrelated business income tax or UBIT). It is allowable to place a link to a sponsor's website from the organization's website with no tax implications as long as it is simply to recognize the sponsorship and is not accompanied by an inducement to buy on the organization's website.

Qualified sponsorships are treated like donations (since they are not advertising) and because of that, they must be booked as revenue upon the commitment from the sponsor. The practical implication of this treatment is that if a sponsor commits for a 2007 conference in 2006, it is temporarily restricted revenue in 2006 even if the payment is not received until 2007. The revenue can not be deferred to match it against the conference expenses. The restriction becomes satisfied in 2007, but with no effect to that year's net income. Another example is a three-year sponsorship agreement that will pay an organization \$10,000 a year for the next three years. In this instance, too, the organization will need to book \$30,000 in revenue and accounts receivable when the sponsorship is agreed to (unless the organization is cash basis of course).

As with most elements of accounting, the exact rules are more complicated than can be summarized in two paragraphs, so if you have any questions about this topic, please contact us.

*By Bob Grogan, CPA, Chicago office
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Rates and Limits

The Internal Revenue Service has announced 401(k) and 403(b) limitations for 2006. The maximum elective deferral for 401(k) and 403(b) plans increases from \$14,000 in 2005 to \$15,000 in 2006 while the dollar limitation for catch-up contributions for individuals aged 50 or over is increased from \$4,000 to \$5,000. In addition, the maximum annual contribution to a defined contribution plan increased from \$42,000 in 2005 to \$44,000 in 2006.

Our laminated 2006 Rates and Limits Release was mailed to clients and friends of the Firm the last week of December

2005. This release summarizes various payroll tax and pension plan limits. Contact us at info@legacycpas.com if you would like a laminated release mailed to you. The release is also posted on our website.

Contact Maria Solis at msolis@legacycpas.com or at 312-384-4282 if you have any questions.

If you would like to reprint any of our information or releases, please contact us at info@legacycpas.com for prior permission.

Legacy News *Continued from page 1*

Please let us know if you have questions or need additional information on any of the topics we cover in this issue or otherwise. Also, if there are other subjects you would like covered in future issues, please send us an e-mail with your request to info@legacycpas.com or give us a call at 866-DIAL-LEGACY. We welcome guest writers, comments, or questions anytime. Contact Julie Tucek at jtucek@legacycpas.com or at 312-384-4292 if you would like to contribute.

Finally, we are eager to provide you, our readers, with information the way you like to receive it. Please send an e-mail to info@legacycpas.com if you prefer to receive this newsletter and/or our News Flashes via e-mail, or both via U.S. mail and e-mail. If you wish to receive our communications via U.S. mail and are already doing so, there is no need to contact us. For now, the default preference is the U.S. mail.



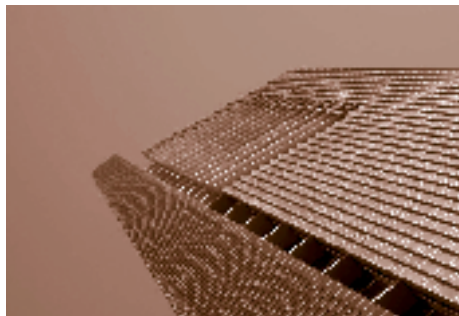
Julie Tucek, Greg Wallenbecker, and Rose Doherty, at Holiday Showcase.

This issue was edited by Legacy Partner Rose G. Doherty, CPA. Rose is based out of our Chicago office and can be reached at rdoherty@legacycpas.com.

– The partners and staff of Legacy Professionals LLP

Understanding Deferred Rent

Today's commercial rental market can be very competitive and many organizations have been able to negotiate some very good deals related to their office space. In some instances, the landlord will abate (waive payment) the first few month's rent or give cash payouts to cover such items as moving expenses or new furniture. These inducements certainly help with an organization's cash flow but they are not always an immediate windfall to the bottom line. If your organization follows the accrual basis of accounting, then even though you are not physically writing a check to the landlord, you most likely still need to recognize rent expense every month. Generally Accepted Accounting Principles (GAAP) requires that an organization amortize such lease related benefits over the life of the entire lease.



The simplest way to understand this is that an organization must take all the base rent payments that will be paid, deduct all the agreed-upon cash out benefits and divide

that total by the number of months in the lease. The result is the amount of expense that should be recognized each month of the lease. This has the effect of smoothing out regular yearly rent escalations and the swings caused by the one-time benefits. To accommodate all these timing differences between expenses and payments, an organization would use a liability account referred to as Deferred Rent Credit.

Lease agreements can run hundreds of pages in length, so we can not cover all the different possible scenarios here in this article. However, we did want to point out this common accounting issue, since several of our clients have recently gone through this scenario. If you would like to talk about your particular situation in order to understand the accounting implications of a new lease, please contact us.

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Form 990 Update *Continued from page 1*

The IRS is conducting phone forums on the Form 990 for tax professionals and representatives of tax-exempt organizations. The forums scheduled for March 22 and 23 are already filled up. Check on the IRS homepage for Charities and Nonprofits to see if additional seminars are going to be scheduled. Let us know if you have any questions.

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