NONPROFIT NAVIGATOR

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ABOUT US

Our not-for-profit niche at Henry & Horne, LLP was officially formed 30 years ago, but we have been serving the not-for-profit community since we opened our doors in 1957. We are dedicated to Arizona's nonprofit community, and as a local firm with such a long history, we truly understand what is important to our nonprofit clients. Our team members receive quality continuing education specifically in non-profit topics and are continually researching various nonprofit issues, which results in a very broad level of nonprofit expertise.

Recognizing the Contribution Portion of a Special Event Ticket

By Colette Kamps, CPA

Your major Gala of the year is scheduled for October 15. Your fiscal year-end is June 30. In the months of May and June your Development Department begins its big push to sell tables to the event and receives a number of firm commitments prior to June 30. A few of them have even already paid for the $3,000 table cost as of June 30. The direct benefit portion of the table cost is determined to be $1,000, and the remaining $2,000 is the contribution portion.

So…do you recognize the whole $3,000 for each table as revenue in the year ended June 30? Do you recognize just the contribution portion, since contributions are to be recognized when the promise is made?

The answers to these questions are generally "no". Let's break up the $3,000 cost into its two pieces and take a look at each:

Exchange portion – This is the portion of the $3,000 (determined to be $1,000 above) which represents the amount paid in exchange for the value of the dinner received. The value of the benefit received could also include other things like drinks, valet parking and entertainment. In paying this portion, the attendee is just buying something of value, and paying an amount equal to the value. The timing of revenue recognition for this portion is pretty straight forward. The organization would recognize this portion of the ticket cost in the period the amount is earned, which would be when the event takes place.

Contribution portion – A special event held by a nonprofit organization usually has the purpose of raising money for the organization; so in most cases, the ticket cost will include a contribution element. In other words, the attendees are willing to pay above the amount of the value they receive in exchange because they wish to support the organization. In our above example, the contribution portion is $2,000. Would this portion be recognized as revenue in the period the promise or commitment is made to purchase the table? Would it be recognized at the time payment is received? According to accounting standards, this contribution portion of the ticket cost meets the definition of a conditional promise to give. Conditional contributions are only recognized when the condition is met, or when a future event occurs. There are some uncommon situations where an attendee makes an advance payment to purchase an event table with the understanding between the two parties that the donor would not expect a refund if the event did not occur for some reason. In that unusual situation, the donation would be unconditional and should be recognized at the time it is promised. However, in most situations with special events, this type of arrangement with the event attendee is not in place.

Accounting standards do state in general that a condition can be disregarded if the chance of the condition not occurring is very remote. However, accounting standards interpretations specifically state that this consideration would generally not be applied in the case of a special event.

In conclusion, promises to give for special event tickets or tables should not be recognized as revenue until the event occurs and amounts received in advance for these events should be recorded as a liability.

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

Coordinates

According to the National Council of Nonprofits, the top three trends facing charitable nonprofits in 2015 are: limited resources, increased demands/needs, and the growing awareness that every nonprofit and board member needs to be an active, vocal advocate for the mission.

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In an announcement on September 15, the IRS said that mission-related investments don't necessarily jeopardize a foundation's financial future and shouldn't automatically be subject to tax. This supports the current trend in "impact" or "social" investing.

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According to The Chronical of Philanthropy, female CEO's at nonprofit organizations with budgets between $2.5M and $5M take home 23% less than their male peers. This is based on 2013 data from Forms 990 which included information on over 96,000 chief executives.

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Certified Public Accountants

IRS Survey for Tax Exempt Entities Yields Three Major Recommendations

By Kristin Cullen, CPA

Several months ago I received an email requesting that I complete a survey about the Form 990, as I am a regular preparer of the form. This survey was being conducted by the Exempt Organizations Subcommittee of the IRS Advisory Committee on Tax Exempt and Government Entities (the ACT). The purpose of the ACT is to provide an organized public forum for discussion between IRS officials and representatives. Annually, they provide any observations and recommendations for improvement to the IRS through an annual report.

The ACT surveyed various groups of users of the Forms 990, 990-EZ, and the 990-N including state and local government officials, donors, advisors to donors and grant makers, practitioners (lawyers and accountants), researchers, and IRS Division Managers. All of the survey results were presented in the annual report which is available to the public online. (http://www.irs.gov/Government-Entities/Advisory-Committee-on-Tax-Exempt-and-Government-Entities-(ACT))

In the report, the Committee made the three following recommendations to the IRS:

- Require electronic filing of the Form 990 series and consider eliminating the $10 million asset threshold for electronic filing.
- Convene a task force to determine which parts and schedules of the current form should be updated, enhanced or deleted altogether.
- Consider requesting additional information from Form 990-N filers.

The recommendation to require e-filing is not surprising to me. There has been talk of this for a while and even President Obama proposed the IRS require electronic filing for exempt organizations. The survey to filing organizations asked if a requirement to file electronically would have a negative effect on them. Of those surveyed who file a Form 990, 59.91% said it would not negatively affect the organization and of those filing Form 990-EZ, 83.33% said the same. It may take some time for the IRS to improve processes and technology but it seems inevitable that electronic filing will become mandatory in the future.

In 2008, the Form 990 was significantly redesigned. There were a lot of schedules and additional information added to the core form. I would agree that it may be time to revisit these additions to see if they are being completed and used in the manner intended. According to the survey, it was not surprising to see that the two most used sections of the 990 by all users were the Statement of Functional Expenses and the Compensation of Officers, Directors and Key Employees. The entirety of the core form (Parts I – XII) is used more than any of the additional schedules currently required. Which begs the question…why require the additional schedules if they are not being used? And why aren't they being used? Is the information not necessary, or is it difficult to understand?

The last recommendation comes from a concern that neither the 990-N nor the new Form 1023-EZ requires detailed information of an organization's exempt activities or governance. The survey sent to 990-N filers asked if it would be burdensome to have to report total revenue and expenses. The response was that 66.67% said it would not be.

The entire report for the Exempt Organizations is about 62 pages; however, it holds a lot of interesting information both on the IRS's process for 990s as well as interesting statistics from the surveys. I personally feel all three recommendations were on par and am hoping to see some progress and changes from the IRS in the next few years.

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