NONPROFIT NAVIGATOR

Summer 2013

ABOUT US

Our not-for-profit niche at Henry & Horne, LLP was officially formed 28 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 nonprofit topics and are continually researching various nonprofit issues, which results in a very broad level of nonprofit expertise.

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What You May Not Know About Schedule A

By Colette Kamps, CPA

Schedule A is required to be completed and attached to the Form 990 by all public charities. The schedule requires you to calculate your public support percentage in the aggregate over the last 5 years, so that the IRS can determine if you continue to qualify as a public charity, versus a private foundation. You are basically required to maintain public support (in relation to total support) at a level of at least 33 1/3%. This may sound like a low percentage, but there can be difficulties in meeting this percentage in certain circumstances. For example, a newer organization may receive a substantial grant from a private foundation, and other support may be relatively minimal during the early years of operations. This could cause the percentage to be low. Here are a few points relating to this calculation (and Schedule A) that you may not be aware of:

- If you use the accrual accounting method on the Form 990, you are required to also use the accrual method when reporting support in the columns on Schedule A. If you wish to change your accounting method in any given year on the form as a whole, you are generally required to complete Form 3115 (application to change accounting method). If you choose to do this, you will have to change all columns on the Schedule A so that all years are reported on the same basis of accounting. Keep in mind that the IRS instructions state that the organization should generally use the same accounting method on the return that it regularly uses for bookkeeping purposes.
- An organization is not required to use the same public support test specified in its documentation letter from the IRS. It should use the support test that best reflects its sources of support. So you may switch from checking box 7 in one year, to checking box 9 in the next year, if it makes sense.
- If your organization is within its first five years of operations, you are not required to calculate the public support percentage on Schedule A.
- If you meet the minimum public support percentage, you are generally deemed to be a publicly supported organization for the current year and the next year- this is a one year grace period. For example, if you meet the percentage in 2012 and then fall below in 2013, and rise back above the minimum percentage in 2014, you will not be reclassified to private foundation status. If this happens, an explanation is required in Part 4 of Schedule A.
- If an organization does not qualify as publicly supported for 2 years in a row, it automatically becomes a private foundation and Form 990-PF needs to be filed.
- If you are on the accrual basis of accounting, you would include total promises to give as revenue in the year the amounts are promised, but the amounts can be subsequently adjusted for any uncollectible balances. For example, if you receive promises to give in the amount of $100,000 in 2012, you would show that amount as revenue in the appropriate column of Schedule A. If $10,000 of that amount becomes uncollectible in 2013, you would adjust the amount in the 2012 column to $90,000 when you complete Schedule A for 2013.
- Non-cash contributions of tangible items should be included in the amounts reported on Schedule A. However, donations of services would not be included.
- If an organization does not meet the 33 1/3% calculation to qualify as publicly supported, it may still qualify under the "facts and circumstances" test. To qualify under this test, the organization's percentage must be at least 10% and all pertinent facts must indicate that the organization is publicly supported.

It's a really good idea to start tracking your public support percentage while the organization is still in its first five years of operations so that you can ensure you are on track for an adequate percentage by the time you are required to calculate it on Schedule A in year 6.

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

Coordinates

According to the Nonprofit Times, donations in the form of small change at the cash register apparently add up! In a June 2013 article in The NonProfit Times, it was reported that more than $358 million was raised in 2012 by 63 corporate-backed cause campaigns – all of which was solicited from consumers at checkout.

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According to Philanthropy Today, someone paid $1 million to eat lunch with Warren Buffett. While $1 million is a pretty hefty price tag, with the benefit going to a San Francisco-based social services organization, it's actually the lowest bid received since the event began in 2000. The winner, along with seven other diners, will dine with Warren Buffett in New York City.

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The Susan G. Komen 3-Day for the Cure won't be held in Arizona next year. Approximately 18,000 people participated in total at the 14 charity races in various cities last year, but they've cited declining participation and economic uncertainty as their reasoning for cancelling.

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Changes Finally Coming to Lease Accounting Standards

By Jessica Puckett, CPA, CFE

After many years of analysis, discussion and speculation, it appears that definite changes are on the horizon for how companies and organizations – including not-for-profits – account for lease agreements.

Currently, there are two classifications for leases: operating leases and capital leases. The existing lease accounting rules have been in place for more than 30 years, and there has been a lot of criticism that organizations can easily structure their leasing agreements to ensure the lease qualifies as an operating lease instead of a capital lease. Simply stated, capital leases are recorded as assets and liabilities on the statement of financial position while operating leases are not. The majority of leases today are classified as operating leases. Therefore, in order to determine what types of operating leases are in effect within a particular organization, you'd have to read the footnotes to their financial statements.

As a result, the Financial Accounting Standards Board (FASB) has been working on lease accounting reform as a joint project with the International Accounting Standards Board (IASB) since 2006 in an attempt to increase transparency and comparability among companies and organizations.

It's been a long process, but there have been recent developments. In May 2013, the FASB and IASB issued Proposed Accounting Standards Update No. 2013-270: Leases. Once adopted, it will bring about significant changes to lease accounting and reporting. More specifically, it will require most leases to be included in assets and liabilities on the statement of financial position. For equipment leases, organizations would be required to show a larger expense in the initial years of a lease compared to smaller expenses toward the end of the lease agreement term, similar to how there is more interest expense charged in the beginning years of financing assets.

These changes won't just affect equipment leases. Changes to lease accounting for real estate are also included in the proposal, although expenses would be recognized evenly over the life of the lease as opposed to the "frontloading" method applied to equipment leases.

The FASB and the IASB are accepting feedback and comments on the proposed changes through September 13, 2013. This is the second round of public comments solicited throughout this process. It's not certain when the proposed changes will take effect, but it is estimated that the new standards will be finalized during 2014.

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