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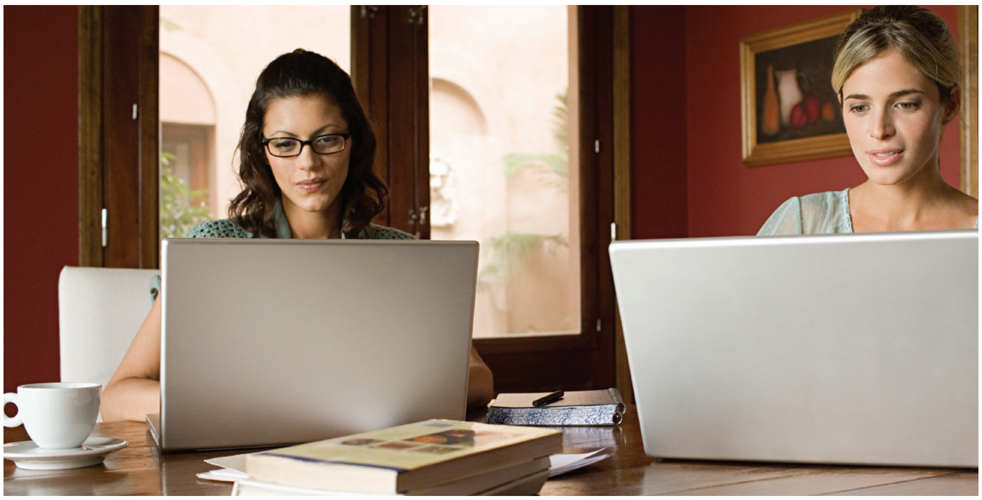

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COST ALLOCATIONS FOR NONPROFITS – WHAT'S THE FUSS ALL ABOUT?

By Adam B. Cole, CPA

THERE HAS BEEN A LOT OF PUBLICITY RECENTLY ABOUT THE PROPRIETY OF THE FUNCTIONAL ALLOCATIONS OF EXPENSES REPORTED ON THE FINANCIAL STATEMENTS, TAX RETURNS AND COST REPORTS FOR NONPROFIT ORGANIZATIONS.

Some state and local agencies have been modifying their audit protocols to focus on the cost allocations reported to them each year.

Why the increased scrutiny? Governments are looking for justification for budget cuts by rationalizing that nonprofit organizations are not running as lean as they should. In addition, there have been some highly publicized examples of nonprofit organizations that have had to endure media criticism of both their executive compensation and their cost allocation methodologies.

Unlike public companies, nonprofit organizations' expenses are reported by their functional classification on the statement of activities, as required by generally accepted accounting principles (GAAP). Functional

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COST ALLOCATIONS FOR NONPROFITS

reporting involves allocating and reporting expenses by major classes of programs and supporting services. Additionally, a voluntary health and welfare organization is required to report in a separate statement of functional expenses its matrix of expenses by both its functional classification and natural classification (salaries, rent, utilities, supplies, etc.) One of the benefits to functional reporting is donors have more meaningful information about the types of programs and activities and their costs that are carried out to fulfill an organization's mission.

Cost allocations are also important because when done accurately and consistently, they can provide a realistic picture of the total cost of different programs. This information becomes critically important in the current economic environment as nonprofit organizations work to stretch reduced resources over multiple programs and determine whether they must discontinue certain programs. In addition, many nonprofit organizations are required to report reimbursable expenses annually on cost reports. How you report these expenses by functional program will have a direct impact on your bottom line and potentially impact fundraising decisions.

Allocation methods also impact the percentages of program, management and fundraising that will appear on your Form 990 and other reports – numbers that potential donors use to judge your organization's worthiness for their contributions.

I am frequently asked how much an organization should spend on program expenses vs. supporting services. My response is always to consider several factors, including but not limited to the following:

▶SIZE OF THE ORGANIZATION

There is a minimum infrastructure that is required for any organization. The smaller organizations, those with operating budgets under $5 million, will generally have a higher percentage of supporting services to maintain proper internal controls, have proper technology for use, and maintain adequate staffing to properly supervise the program staff of the organization. Conversely, the larger organizations, those with operating budgets in excess of $100 million generally achieve smaller percentages of supporting services due to the achievement of economies of scale in their cost structure.

▶FUNDING MIX

The types of funding, either public or private will also dictate the percentage of the supporting services that an organization will have. Some federal contracts put caps on supporting services at lower percentages, around 6% to 8%. For nonprofit organizations with operating budgets that are small to mid-sized, this could require private donor dollars to support a larger infrastructure.

▶COMPLEXITY

Too much program expense may mean an organization is under-investing in technology, personnel support and development, or financial planning and audit services. Too little program expense may mean an organization is not being as efficient as it should be with donor contributions. When assessing an organization's program expenses vs. supporting service expenses, I recommend you compare it with the ratios of similar organizations instead of expecting there is a "right" percentage which would be expected for all nonprofit organizations.

▶CONCLUSION

The recognition and allocation of supporting service costs is an important piece of a nonprofit organization's cost structure. The ability to fund these costs can make the difference between a successful organization and an unsuccessful one.

Understanding your organization's total costs can also help you increase efficiency and distribute your organization's resources in a way that maximizes program outcomes.

For more information, contact Adam Cole, partner, at acole@bdo.com.

INSTITUTE PROFESSIONAL PROFILE

MEET ADAM COLE

Adam Cole is a partner in both the Nonprofit & Education and the Healthcare groups in the New York Metro area office of BDO with 23 years of experience. Adam has spent his entire career auditing and consulting with both nonprofits and healthcare organizations.

Adam is one of the founding partners of the New York Metro Area Healthcare and Nonprofit practice group, which has grown from 10 individuals in 1993, when he merged the practice into BDO, to about 70 individuals today. The group specializes in many types of subsets of the nonprofit industry, including services to social service organizations, hospitals and community health centers, foundations, fund raising organizations, and medical practices.

Adam is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants and a past member of the Accounting for Not-for-Profit Organizations Committee and The Exempt Organization Committee. Adam frequently speaks at several industry conferences on such topics as nonprofit mergers, compliance programs, and reimbursement issues.

Adam has a B.S. in Accounting from the State University of New York College at New Paltz.

IRS (FINALLY) ISSUES 2012 EXEMPT ORGANIZATIONS WORK PLAN

By Paul E. Hammerschmidt, CPA, MS (Taxation) and Christina K. Patten

Better late than never – On Feb. 8, 2012, the IRS released its Exempt Organizations (EO) work plan, a blueprint as to where it will be focusing its efforts towards exempt organizations! The work plan is available for download at the IRS website. The IRS usually issues its EO work plan each year at around this time. The IRS issued its 2011 EO Work Plan nearly two months earlier, in contrast to 2010, when without explanation it never publicly released a 2010 EO work plan, for the first time in over 25 years.

The EO work plan is important for those of us who work with exempt organizations because it provides an opportunity to understand where the next IRS enforcement initiatives will be as the IRS must try to allocate its limited resources efficiently.

Lois Lerner, director of the IRS Exempt Organizations Division, commented at the time the 2012 work plan was issued:

> *"This (Form 990 filed by EOs) allows us to use data analytics and build risk models that will guide our work and greatly improve our ability to support high standards of transparency and stewardship among exempt organizations."*

The EO Division has historically focused its enforcement efforts on particular categories of tax-exempt organizations or particular issues.

The 2012 work plan for exempt organizations includes:

I. LEGISLATIVE IMPLEMENTATION

Auto-Revocation for Non-Filers – The IRS has now incorporated the revocation list into Select Check and will continue to process applications for reinstatement of exemption from organizations whose exemptions were revoked under the provisions of the Pension Protection Act of 2006 for failure to file an annual return (i.e., Form 990, 990-EZ or 990-N) for three consecutive years.

The IRS will continue to work on guidance for:

- Hospitals with focus on community benefit reporting; Schedule H; and Community Health Needs Assessment and other requirements under Internal Revenue Code (IRC) Section 501(r)
- Qualified Nonprofit Health Care Insurance Issuers (known as Section 501(c)(29) organizations)
- Accountable Care Organizations (including tax-exempt hospitals that participate in the Medicaid Shared Savings Program through accountable care organizations (ACOs)

II. COMPLIANCE: USING THE FORM 990

Beginning with the redesigned 2008 Form 990, the IRS now has three years of comprehensive information filed by many EOs. They will use this information to develop risk models to assess the likelihood of noncompliance by organizations and allow more effective use of examination resources in the following activities:

- **501(c)(4), (5) and (6) Self-Declarers** – These organizations can declare themselves exempt without seeking a determination letter from the IRS. The IRS has indicated its interest in these organizations to ensure that they have properly classified themselves and are complying with applicable rules. The IRS EO has indicated that it will send a comprehensive questionnaire to these organizations based on Form 990 filings to assess compliance. The IRS and most tax professionals strongly recommend filing for recognition purposes, even though the instructions for IRS Form 1024 state that an organization seeking recognition as a (c)(4), (5) or (6) "should" (not "must") file Form 1024.

- **Political Activity** – It's an election year and EO will continue its work to enforce the rules.

There's an absolute prohibition for 501(c)(3) organizations to engage in political activity and doing so may result in revocation of tax exemption.

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2012 EXEMPT ORGANIZATIONS WORK PLAN

The IRS Enforcement Initiative Political Activities Compliance Initiative (PACI) has procedures designed to expeditiously address instances of potential political activity by 501(c)(3) organizations in violation of the Internal Revenue Code. The goal is first to educate 501(c)(3) organizations on the prohibition on political activity and put them on notice of the enforcement program in order to prevent violations; and secondly, to address noncompliance while the issue remains prominent, so that there are no reoccurrences and so correction could occur prior to the relevant election.

- **990 and UBIT** – EO intends to look at organizations that report unrelated business activities on Form 990 but have not filed Form 990-T. The group also plans to analyze Form 990-T data to develop risk models that will help them identify organizations consistently reporting significant gross receipts from unrelated business activities but do not report any tax due.

We encourage organizations to review their expense allocation methodologies to ensure they can be supported upon examination.

- **Governance** – IRS EO will use organizations' Form 990 data to look at connections between certain governance practices and tax compliance.

The IRS encourages exempt organizations to have good governance and believes that organizations that exercise good governance are more likely to operate in compliance with the Internal Revenue Code. Organizations that do not have good governance are subject to a closer look by the IRS and possible examination.

III. COLLABORATIVE EFFORTS

The IRS indicates that it will work with EO stakeholders outside the IRS as well as within the IRS to address international activities and employment tax matters. It will also continue to partner with the Academic Institutions Initiative that offers training and workshops for nonprofit sector leaders. EO will also work with others at the IRS to streamline the examinations information on the "Charities and Nonprofits" page of the IRS website.

International

With many tax-exempt organizations moving funds, people and goods overseas, EO plans to continue to examine these tax-exempt organizations to ensure that those activities conducted overseas are consistent with their charitable purposes. The IRS will be paying particular attention to large private foundations (those with assets or total annual revenue greater than $500 million) with international activities. EO's focus will include compliance issues unique to private foundations, such as self-dealing, failure to distribute income, excess business holdings, jeopardy investments and taxable expenditures.

EO will also continue to look at organizations that report ownership of a foreign bank account to ensure that funds are not diverted from their charitable purposes. When looking at these organizations EO will look to determine whether the organization maintains adequate books and records to ensure assets are used for charitable purposes, and maintains proper discretion and control over funds that have left the United States, is meeting all filing requirements, and how foreign operations or grantmaking furthers the organization's tax-exempt purpose.

EO plans to release two new publications to assist foreign and domestic charities involved in overseas activities.

IV. GENERAL WORK

Colleges and Universities

The IRS is completing its compliance project that began in October 2008, sending compliance questionnaires to 400 colleges and universities. Although the IRS issued its interim report in May 2010, a final report is expected to be issued shortly that will highlight its findings drawn from the questionnaire data and exam results.

EO will also be working on the following matters:

- **Disaster Relief Communications** – To identify compliance issues associated with disaster relief efforts.
- **Group Rulings** – EO will develop and send questionnaires to a cross-section of group ruling holders to determine compliance with Rev. Proc. 80-27.
- **Mortgage Foreclosure Assistance** – The IRS will focus on whether these organizations are fulfilling their exempt purpose and complying with IRC 501(q).
- **State-Sponsored Workers Compensation Organizations – 501(c)(27)s** – The IRS will contact these organizations to determine whether they are meeting the criteria for exemption and paying employment taxes.
- **Private Foundations** – The IRS recognizes that many hold substantial assets and are generally subject to more restrictive rules than other charities. EO is examining a selection of the largest private foundations.
- **EO Services and Assistance** – EO will continue to assist small tax-exempt organizations and develop more effective, efficient outreach and educational programs.
- **Employment Tax Examinations** – 500 nonprofits will be examined during this third and final year of this continuing IRS initiative.

For more information, contact Paul E. Hammerschmidt, director, at phammerschmidt@bdo.com or Christina K. Patten, associate, at cpatten@bdo.com.

UPDATE ON 2011 FORM 990: SOME CHANGES AND CLARIFICATIONS

By Joyce Underwood, CPA

The Internal Revenue Service (IRS) released its 2011 Form 990 and instructions on Jan. 21, 2012. One looking just at the forms and instructions themselves would see few revisions; however, the IRS has provided a number of clarifications and made some significant changes in the instructions to the form and the schedules.

Some of the more significant clarifications made by the IRS are summarized below:

- Organizations that have not yet filed exemption applications (Forms 1023 or 1024) with the IRS are still required to file the applicable Form 990-series form, as do those with applications pending.
- The website address and principal officer information entered on page one should be current as of the date of filing the return.
- The IRS clarifies that an organization should make reasonable efforts (see the full Glossary definition included in the IRS Form 990 instructions) to obtain information from third parties needed to complete the form.
- Making the Form 990 available upon request does not satisfy the requirement for an organization to provide a complete copy of its Form 990 to all members of its governing body prior to filing the form.
- Figuring out which position checkboxes to mark on Part VII for the governing body, officers and compensated individuals has been very confusing, especially for those not well versed in the definition of the different roles and their subsets. The IRS has clarified that only one position box should be checked for each person listed in the compensation table, unless the individual is both an officer and a director/trustee of the organization. This is not a change, but a clarification to eliminate ambiguity in the instructions and form.
- The IRS clarifies that the value of housing provided by an employer does not have to be reported as compensation to the extent that such value is a working condition fringe. The IRS has also clarified that cell phones provided to employees primarily for business purposes are a working condition fringe and not reportable as compensation.
- If a governing body delegates broad authority to an executive committee or similar committee, this must be explained in Schedule O.
- Examples illustrating when board chair compensation is considered to compensate the board chair as an officer versus an employee of the organization have been added.
- The IRS clarifies that net losses from uncollectible pledges, refunds of contributions and service revenue, or reversal of grant expenses should be reported as "Other changes in net assets or fund balances" on Part XI, line 5, and that these instances need to be explained in Schedule O.
- For contributions made via a text message, the donor's phone bill meets the section 170(f)(17) recordkeeping requirement of a reliable written record if it shows the name of the donee organization and the date and amount of the contribution made.
- The IRS clarifies that contributions of conservation easements and other qualified conservation contributions that are received by the organization must be reported consistently with how the organization reports revenue from such contributions in its books, records and financial statements.
- Although an organization reports revenue on the 990 under its appropriate accounting method under generally accepted accounting principles, the value of donated services or the use of donated materials, equipment or facilities which are valued and included in financial statement income may not be reported as income on Form 990.
- Schedule N instructions provide new examples of situations that are not considered significant dispositions of net assets.
- "Term endowment" is renamed "Temporarily restricted endowment" in the Glossary contained in the Form 990 instructions and includes not only endowment funds established by donor-restricted gifts for a specified period, but all other temporarily restricted net assets held in a donor-restricted endowment, including certain income from permanent endowments.

Notable changes to the Form 990 and required schedules are outlined below:

Compensation disclosures on **Schedule J** have been revised so an organization that is part of a related group of organizations will be required to provide a narrative description of any reliance by such organization on a related organization to establish the compensation of any of the reporting organization's officers, directors, trustees or key employees. Also, additional narrative descriptions of severance/change-of-control payments and compensatory benefits are required to support Part I of Schedule J.

Hospitals should note that **Schedule H** underwent revision and requires significantly more disclosures. Part V now contains 21 questions requiring substantive disclosures in the form of written narratives relating to a community health needs assessment (optional for tax years beginning in 2011), financial assistance policies, billing and collections policies, and emergency medical care policies. For tax years beginning after March 23, 2012, however, hospital organizations will be required to take into account input from persons who represent the broad interests of the community served by the hospital facility in developing a Needs Assessment. Needs Assessments must be made widely available to the community, and each hospital facility will be required to conduct a Needs Assessment at least once every three years.

In a welcome, but challenging change, the IRS has clarified reporting of pass-through income. Financial information on **Form 990, Parts VIII, IX and X** now require organizations to report revenues, expenses and assets related to **joint ventures and investment partnerships** using amounts reported on

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BONUSES AND INCENTIVES FOR TAX-EXEMPT ORGANIZATIONS? CAN WE REALLY OFFER THESE?

By Michael Conover

Some people are surprised to discover bonuses or incentive payments being used by tax-exempt organizations. It seems these individuals operate under the assumption that these forms of "extra" compensation are somehow not compatible with their expectations for a charitable or tax-exempt organization.

The fact is, however, that tax-exempt organizations can and do use variable, performance-based compensation. The number of organizations using them has grown over the years and, depending on the particular sector (e.g., hospitals, trade/professional organizations, etc.), they may be prevalent. Executive and other senior levels of management are most frequently the persons eligible for participation in formal plans. However, it is also not uncommon to find bonuses or other "spot awards" being given to deserving employees at all levels of an organization.

The balance of this article will examine bonus and incentive plans being used by tax-exempt organizations. It will offer some information and general advice on two broad types of variable pay arrangements and how they might serve as useful additions to an organization's compensation program.

Variable pay has long been used by for-profit organizations to accomplish a number of objectives. A well-communicated and administered plan can be very effective for focusing attention and efforts on the results that are critical for an entity's success. In addition, these plans can expand or contract payroll based on the entity's performance and ability to pay. The same benefits are also available to tax-exempt organizations.

It is important to distinguish the bonus from the incentive plan. The terms are not interchangeable. An incentive establishes the criteria for determination and the potential award amount at the outset of a performance period before any payment is made. On the other hand, a bonus is a discretionary award made at the end, or after the performance period in appreciation for a particular accomplishment or some other notable performance. In both cases, clear communication with recipients about the terms and purpose of the payment is essential for success.

Tax-exempt organizations can use both bonus and incentive plans. There are, however, some special considerations that must be addressed regarding how the plan is structured and how much compensation is offered.

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UPDATE ON 2011 FORM 990

Schedule K-1, rather than amounts derived from the organization's books and records. This represents a significant departure from the reporting requirements under previous versions of Form 990, and may cause difficulties in the return preparation process.

Schedule F previously required an organization to list **foreign investments** only when income or expenses from any foreign source exceeded $10,000, but this has been revised to require the listing of foreign investment holdings when they are valued at more than $100,000 at any time during the tax year.

Schedule K, Tax-Exempt Bonds, now asks whether the organization has established written procedures to ensure timely identification and **correction of violations** of federal tax requirements.

Changes to **Schedule L**, Transactions with Interested Persons, provides that a **business transaction** between the organization and an entity more than 35% owned by current or former officers, directors, trustees or key employees is not reportable in Part IV if the entity is a 501(c)(3) organization, a 501(c) organization of the same subsection as the filing organization or a governmental unit; and eliminates the requirement that a business transaction between the organization and another entity must be reported simply because a current or former officer, director, trustee, or key employee of the organization was a key employee of the other entity.

Schedule R, Related Entities, provides that organizations should report related **split-interest trusts** in Part IV by type, but do not need to report the trust's specific name, address, or EIN or complete Part IV, columns (f), (g) or (h) for such trusts.

A paid preparer's taxpayer identification number (PTIN) must now be entered in the return signature section, which avoids the public disclosure of Social Security numbers; and paid preparers are permitted to sign returns by rubber stamp, mechanical device or computer software program. This change was made as a result of the new requirement that all paid preparers of tax returns must be registered with the IRS.

While not all-inclusive, the above summarizes some of the more significant clarifications and changes to the Form 990 for 2011, and provides a good indication of how the IRS intends to clarify guidance and communicate new rules to those involved in the preparation process. Most changes have been briefly summarized in the core Form 990 instructions, with further detail in the instructions for the individual schedules. See the IRS website at http://www.irs.gov/charities/article/0,,id=233830,00.html.

For more information, contact Joyce Underwood, director, at junderwood@bdo.com.

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BONUSES AND INCENTIVES FOR TAX-EXEMPT ORGANIZATIONS?

Tax-exempt organizations must structure all forms of pay and benefits, particularly variable pay, to avoid any occurrence or appearance of personal inurement/private benefit. One of the most common examples of an **unacceptable** bonus or incentive plan is one that shares any of the organization's revenue directly with an individual. Awarding funds that are intended for the organization's tax-exempt purpose to an individual for personal benefit rather than the mission for which the organization has received its exemption is unacceptable. A specific example of such an inappropriate arrangement would be to establish an incentive plan that offered the participant a percentage of contributions raised in a fundraising drive.

It is important for a tax-exempt organization to base any incentive or bonus on performance factors that are directly related to the accomplishment of an objective or the operation of the organization in a manner that can be demonstrated to have contributed to the efficiency/effectiveness of its mission. Caution should be exercised in developing the performance factors to ensure they do not operate in such a manner that entices a participant to skew financial results in his or her own favor. The more directly the "rewardable" factor can be linked to the success of the organization and its mission, the more likely the plan will escape any suspicion of inurement. This critical linkage will also increase the likelihood that the variable plan can be disclosed and understood as an integral and beneficial component of the organization's compensation program.

Most plans are based on an annual performance period, mainly the organization's business year. Incentive plans are generally communicated to participants in the first 30 to 45 days of the year. Incentive awards and bonuses are generally made as promptly as possible after the close of the year and not exceeding a maximum of 75 days, in most cases, to comply with provisions of 409A. Because most forms of deferred compensation are not allowed for tax-exempt organizations, variable pay plans based on multi-year performance periods present special issues and should only be considered with expert legal advice.

Another important consideration in structuring an effective variable pay plan is the determination of the size of the award opportunity. The award amount must be examined from several perspectives. The award must be large enough to have some meaning or value to the recipient and be commensurate with the event/performance being rewarded. However, it should not be excessive on its own account or produce an unreasonable amount of total compensation when added to all the other compensation and benefits the individual receives.

Competitive compensation information from published surveys and other pay data sources (Form 990s filed by other organizations) can provide helpful information about the prevalence and award amounts offered by other organizations. This can be a valuable context for assessing the competitiveness of an organization's overall compensation for key positions and also offer helpful analysis of the amounts of bonuses/incentives paid as well as information about the plans upon which they are based.

Governance for variable pay plans should be assigned to the independent members of the organization's board or compensation committee of the board, if one has been established. A formal description of the plan should be drafted including its purpose, role in the organization's overall compensation program, eligibility requirements for participants, plan terms and conditions. Incentive plan details should be approved by the board early in the year along with any incentive bonus awards paid under the plan. It is important that no plan participant is engaged in any aspect of the oversight of the plan. Plans should be regularly reviewed to ensure that they continue to fulfill their intended purpose as well as continue to support the organization's desired position in relation to competitive pay levels and practices.

Finally, communication with individuals eligible for participation in variable pay plans should clearly explain the purpose, terms and conditions applicable to any award opportunity or a payment made under the plan. This is essential for ensuring that the plan accomplishes its intended objective. Failure to do so leaves both the participants and non-participants to draw their own conclusions as to why an award was or wasn't made. For example, if a bonus is paid for a significant one-time event, it should be communicated as such rather than allowing a recipient to believe it will be a recurring payment.

A well-designed bonus or incentive plan could be a valuable addition to your organization's compensation program. By thoughtfully addressing the issues we've discussed here, those who may have been skeptical about the use of bonus or incentive plans may discover a way to enhance their compensation program's alignment with and, in support of, the organization's mission.

For more information, contact Michael Conover, senior director, Specialized Tax Services – Compensation and Benefits, at wconover@bdo.com.

CORPORATE SPONSORSHIP

By Laura Kalick, JD, LLM

BACKGROUND

A controversy over corporate sponsorship developed in the early 1990s when the IRS took the audit position that Mobil Oil's sponsorship payment to the Cotton Bowl constituted taxable unrelated advertising income to the nonprofit that organized the Cotton Bowl. In subsequent years the IRS took varying positions on the matter until 1997 when Congress weighed in with Internal Revenue Code (IRC) section 513(i). Section 513(i) provides a safe harbor for certain payments that are deemed to be "qualified sponsorship payments" and, therefore, not subject to the unrelated business income tax (UBIT). A safe harbor is just that, i.e., if you are in the safe harbor you are automatically safe. However, just because you fall outside of the safe harbor does not necessarily mean that a payment is subject to UBIT, it just means that the organization may have to look to another IRC section to determine if the payment is subject to UBIT.

Today, many organizations receive significant revenue from sponsorships, so we thought it would be a good idea to go over the rules.

QUALIFIED SPONSORSHIP

IRC 513(i) provides that a tax-exempt organization's solicitation or receipt of a "qualified sponsorship payment" (QSP) is not an unrelated trade or business. A "qualified sponsorship payment" is a payment made by a business where there is no "substantial return benefit" other than (1) acknowledgement of the sponsor or (2) certain insubstantial benefits. The safe harbor is not applicable to payments made where sponsors are acknowledged in periodicals (either print or electronic), nor is the QSP safe harbor applicable to trade shows.[1] Whether or not the sponsor deducts the payment as a charitable contribution or a business expense is not relevant as to how it is treated by the donee organization. The organization should report QSPs as contributions.

If a payment to an organization is dependent upon ratings or attendance at an event, it is not a qualified sponsorship payment under this provision. Even though a payment is not a qualified sponsorship payment it may be excluded from UBIT under other exceptions to UBIT, including for example, the rent, royalty or "not regularly carried on" exceptions.

INSUBSTANTIAL BENEFITS

Benefits are disregarded in determining whether a payment results in UBIT if the annual fair market value of all the benefits to the sponsor in return for the sponsorship payment is not more than 2% of the amount of the payment to the tax-exempt organization. The burden of showing the fair market value of the benefits rests on the tax-exempt organization.

If the benefits the sponsor receives exceed 2% of the payment, then there is a substantial return benefit, the fair market value of which may be taxable to the organization if another exception to UBIT does not apply. Examples in the regulations describe a range of benefits that a sponsor could conceivably receive in return for a payment including, for example: advertising, tickets to events, free use of facilities, services or rights to use intangible assets such as the organization's name, logo, patents, etc.

It is important that each element of the sponsorship contract is analyzed on its own. For example, if a sponsor of an event gets a certain number of "free" tickets in return for the sponsorship there may be a substantial return benefit. However, if the performance is in furtherance of the organization's exempt function then the sale of the tickets would not create UBI and therefore the organization would not be subject to UBIT for the ticket sales income. On the other hand, if in addition to the "mere acknowledgement" in the event program the sponsor also receives a full page color ad in the organization's periodical, then a determination must be made of the fair market value of the advertising and that amount will most likely be subject to UBIT.

ACKNOWLEDGEMENT OR ADVERTISING

A payment will typically be treated as a qualified sponsorship payment if the sponsor is merely acknowledged for making the payment. The regulations provide that the following will be considered acknowledgement and will not result in a substantial benefit being given to the sponsor:

> Exclusive sponsorship arrangements;[2] logos and slogans that do not contain qualitative or comparative descriptions of the payor's products, services, facilities or company; a list of the payor's locations, telephone numbers or Internet address; value-neutral descriptions, including displays or visual depictions, of the payor's product line or services; and the payor's brand or trade names and product or service listings.

The regulations also contain examples[3] related to web-based sponsorships which are becoming increasingly popular. A hyperlink to the sponsor's commercial website and posting of its name on the organization's website are considered to be sponsor acknowledgement and not advertising. However, if the organization endorses the sponsor or its products, either on its own website or on the sponsor's website, the sponsorship will be considered advertising.

On the other hand, advertising is a substantial return benefit. Advertising is defined as:

> Any message or other programming material which is broadcast or otherwise transmitted, published, displayed or distributed, and

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1 In the case of trade shows, another Internal Revenue Code exception to unrelated business income (UBI), IRC Section 513(d) will govern whether or not a payment is excluded and will depend upon whether it is a "traditional convention or trade show activity."

2 The regulations provide that an arrangement that acknowledges the sponsor as an exclusive sponsor will not itself make the payment a substantial return benefit. However, an exclusive provider arrangement, one where the sale or distribution of competing products or services is limited (e.g., the exclusive beverage provider for a college sports team), will be treated as a substantial return benefit.

3 See section 1.513-4(f) of the Income Tax Regulations examples 11 and 12.

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CORPORATE SPONSORSHIP

which promotes or markets any trade or business, or any service, facility or product. Advertising includes messages containing qualitative or comparative language, price information or other indications of savings or value, an endorsement or an inducement to purchase, sell or use any company, service, facility or product.[4]

The regulations provide that if a message contains both advertising and acknowledgement the entire message will be deemed to be advertising.

▶CONCLUSION

Sponsorships from businesses are a good source of funds for many tax-exempt organizations. Many companies are very willing to enter into sponsorship arrangements structured so that there is no advertising component. In order to report the amounts received properly it is necessary to look at the entire agreement between the sponsor and the organization and analyze each element of consideration. Although each element of a contract may not meet the qualified sponsorship payment safe harbor, there may be other exceptions available that exclude the payments from UBI.

For more information, contact Laura Kalick, national director, Nonprofit Tax Consulting, at lkalick@bdo.com.

4 See section 1.513-4(c)(2)(v) of the Income Tax Regulations.

2011 FINAL REVISION OF *GOVERNMENT AUDITING STANDARDS* ISSUED

By Lee Klumpp, CPA

The U.S. Government Accountability Office (GAO) has issued the final 2011 Revision to *Government Auditing Standards* (a.k.a. the Yellow Book). This update replaces the "Internet Version" that the GAO issued in August 2011. As expected, the changes from the Internet version were limited in nature and mainly relate to refining the standards due to the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board's Clarity Standards (i.e., Statement of Auditing Standards (SAS) No. 122 through 124) issued in October of 2011.

The Yellow Book, which was first published in 1972, covers federal entities and those organizations receiving federal funds. Various laws require compliance with the Yellow Book in connection with audits of federal entities and funds. Furthermore, many states and local governments and other entities, both domestically and internationally, have voluntarily adopted these standards. The professional standards presented in the 2011 revision of *Government Auditing Standards* provide a framework for performing high-quality audit work with competence, integrity, objectivity and independence to provide accountability and to help improve government operations and services. These standards provide the foundation for government auditors to lead by example in the areas of independence, transparency, accountability and quality through the audit process.

The 2011 revision of *Government Auditing Standards* represents a modernized version of the standards, taking into account recent changes in other auditing standards, including international standards. This revision supersedes the 2007 revision. It contains the following major changes from the 2007 revision that reinforce the principles of transparency and accountability and provide the framework for high-quality government audits.

A conceptual framework for independence was added to provide a means for auditors to assess their independence for activities that are not expressly prohibited in the standards. This conceptual framework for independence is a principles-based approach to analyzing independence and provides the framework for auditors to assess the unique facts and circumstances that arise during their audit engagements.

The revision eliminates the discussion from the Yellow Book surrounding certain AICPA Statements on Auditing Standards and Statements on Standards for Attestation Engagements (SSAE) requirements that were incorporated by reference and included in the 2007 revision, as the standards have now converged in these areas. Additionally, the definition of validity as it relates to the aspect of the quality of evidence to be gathered in performance audits has been clarified.

An electronic version of this document and any interpretive publications can be accessed at http://www.gao.gov/yellowbook.

The 2011 revision of *Government Auditing Standards* will be effective for financial audits and attestation engagements for periods ending on or after Dec. 15, 2012, and for performance audits beginning on or after Dec. 15, 2011. Early implementation is not permitted.

For more information, contact Lee Klumpp, director, at lklumpp@bdo.com.

"WORDS!..... WORDS!....."

(with apologies to Eliza in *My Fair Lady*)

By Dick Larkin, CPA

ONE REASON MANY NON-ACCOUNTANTS HAVE TROUBLE USING FINANCIAL INFORMATION IS THEIR FREQUENT CONFUSION OVER SOME OF THE WORDS WE ACCOUNTANTS REGULARLY USE – AND MISUSE.

This challenge is especially acute in the nonprofit sector, where many users of financial information are less likely to have had as much in the way of formal training or experience with financial terminology as have their counterparts in the business world, and where some of the words are unique to the sector.

This does not mean these people are not as intelligent, just that 'accounting' is sort of like a foreign language they have not learned to speak fluently. (The author serves on a certain nonprofit board of trustees along with nine Ph.D.s, two M.Ds, and one J.D. – an intelligent bunch if there ever was one – but their academic training and professional experience never included learning things like the difference between temporarily restricted net assets and deferred charges, so of course they will find reading our financial statements a challenge.)

Here are some of the words in nonprofit 'accountingspeak' most often misunderstood, along with explanations for the layperson:

Deficit, debt, debit and credit

Three of these all begin with 'de' and those all have a connotation of something undesirable (although 'debit' actually has two meanings – one of them good – and differs from 'debt' by only one letter). And they are related in concept. But they mean very different things. 'Credit,' on the other hand has a layperson's connotation of something good (as in she is a 'credit' to her family), but it also has two meanings in accounting – one of them bad, that one partly being the exact same meaning as 'debt.'

'Deficit' is properly used to refer to what is more clearly described as an excess of expenses over revenue for an accounting period – also often called a 'loss'. But it is often seen with the modifier 'accumulated,' 'cumulative' or 'net' – intended to describe a negative net asset position (see below) of an organization as of the end of a period. Worse, sometimes the word is used without a modifier, in which case the reader usually cannot tell whether what is meant is a loss *for the period* or negative net assets *at the end of the period*. To avoid confusion it is better to always use a modifier unless the meaning is absolutely clear from the context. To refer to the deficit for a period, say something like 'annual deficit' or 'deficit for the year' (or other period). It can be used to refer to the results for an entire organization, or for some segment of it such as a department or fund (see below), or for an activity such as a clinic, a concert or a conference.

'Debt' properly refers to any one of many types of obligations (payables) owed by an entity to outsiders. This is the same as 'liability.' But confusion arises between use of the word to refer to any liability, whether or not the organization as a whole is financially solvent, and its use (often in the phrase 'in debt') to mean the organization has negative net assets – i.e., is technically bankrupt. If the word is used, be sure to be clear as to which meaning is intended.

'Debit' and 'credit' are words much used in accounting, but fortunately not in financial reporting, as they each have two meanings,

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"WORDS!.... WORDS!"

and laypeople most often do not (and have no need to) understand these meanings. Without going into a complete description of double-entry bookkeeping, which is where these terms (which both derive from Latin words) are used, suffice it here to say that 'debit' refers to assets, expenses, and negative net assets, while 'credit' refers to liabilities, revenue and positive net assets – hence the earlier comment that both words have both positive and negative meanings.

Additional confusion results from common use of the word 'credit' in the contexts of bank accounts, loans, and credit cards. A bank account is said to have a credit balance when it has a positive balance, which seems like the exact opposite of the facts, since cash is, of course, an asset of the accountholder, and thus a debit (see above) to that person. What is really happening is that the bank has a liability (credit) on *its* books representing the amount it is holding on behalf of the accountholder – the amount it would 'owe' the accountholder if the account were closed. Loans involve both a credit (what you will owe after you take out the loan), and a debit (the cash you will get from the lender). Credit cards are more logical – the cardholder has a liability to the card issuer for the amount of purchases paid for with the card. Another way to say this is that for every credit (payable) in the world, someone somewhere has a matching debit (a receivable). However not all debits have matching credits; some assets such as real estate, collectibles, jewelry and the like, are not liabilities of someone else; they just exist.

Revenue, contributions, support, gifts, grants, gains, earnings, profit, income and proceeds (all of which are sometimes preceded by 'gross' or 'net')

They all mean something good, and are often mistaken for each other. First let's separate the 'gross' forms of this concept from the 'net' forms: revenue, contributions, support, gifts, grants and gains are usually intended to mean gross inflows of resources to an organization. Earnings and profit usually refer to the net amount after deducting related expenses. Income and proceeds, unfortunately, are commonly used both ways, hence are better avoided in financial statements if possible. In all cases where these words are used, it is best to be specific as to whether the meaning is gross or net, unless that is very obvious from the context.

Next, let's note that the words 'earnings' and 'profit' are primarily business terms. It is acceptable for a nonprofit to use them internally, if desired, to refer to the net proceeds from an income-producing activity such as a fundraising event, or from a commercial-type activity such as a college bookstore or museum gift shop, but use in a nonprofit's external financial statements is discouraged.

Now how about Revenue, Contributions, Support, Gifts, Grants, and Gains? Let's simplify: in accounting, 'Contributions,' 'Support,' and 'Gifts' are different words for the same thing – a voluntary transfer of assets from a donor to a recipient, without commensurate consideration back to the donor. If commensurate consideration is transferred back to the payor, the event is called an 'Exchange Transaction' and is not a contribution at all; businesses call these 'Sales.' (It is possible to have a 'hybrid' transaction – part contribution, part exchange, for example a fundraising event where the attendee pays $500 and receives dinner and entertainment worth, say, $100; the other $400 is a contribution. Each piece is accounted for separately in accordance with the rules for that type of transaction.) 'Grants' requires separate discussion; see below.

Gains are distinguished from revenue by whether the inflow of resources results from an activity that is 'major or central' to the organization (revenue), or from one that is 'peripheral or incidental' (gains). These definitions are applied in the context of each organization; what is central to one may be peripheral to another, so something that is revenue to the first might be a gain to the second.

Finally, accounting and other literature are inconsistent in their use of Revenue and Contributions. Technically, contributions are distinguished from revenue – the term properly used for exchange transactions. But in practice the word 'Revenue' is broadly used to refer to all forms of both contributions and exchange transactions (even the Financial Accounting Standards Board (FASB) does this), in which case exchange transactions should be called 'Earned Revenue,' or should be described by the type of activity involved – e.g., tuition, member dues, ticket sales, patient fees, etc. Be sure that use of any of these terms makes it clear exactly what is being referred to.

Fund, fund, fund, funding and funds

'Fund' can be a noun (as in 'endowment fund'), an adjective (as in 'fund balance') or a form of a verb (as in 'to fund a project' or 'the funding for that project is on hand'). 'Funds' is always a plural noun (unless it is the third person singular of 'to fund'), but unfortunately, laypeople mostly use the word to describe certain assets – usually cash – as in 'do we have enough funds for that project?' Again, the words are related in concept to each other. No wonder this is confusing – so much so in fact, that the FASB deliberately did not use the word (except as commentary) in the standards sections of its Statement No. 117 (now codified in ASC 958-205), *Financial Statements of Not-for-Profit Organizations*. 'Fund balance' became 'net assets,' and in the context of donor restrictions, 'fund' is called 'class' of net assets. (In fact the statement even says explicitly that it does not use the word.)

The true meaning of the term 'fund' as a noun is not easily understood. Its proper definition is 'a self-balancing set of accounts,' but that does not tell the non-accountant much. What that means is that for each separate fund within an organization, there are identifiable assets, liabilities, net assets, revenues and expenses specific to that fund, and those financial elements all balance out to zero – as they must under double-entry bookkeeping. It is better to think of a fund as any separately identifiable part of a larger entity for which separate accounting records are kept, such as the John Smith Endowment Fund or the Neurobiology Research Fund. Why bother to do so? Mainly two reasons: either (1) some outside funder requires separate records related to his/her/its payment (which could be a gift – usually, or an exchange transaction such as a research grant), to be used to report back to the funder as to how the money was used, or (2) management of the organization uses the separate financial information as part of monitoring the activities of that part of the organization.

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"WORDS!.... WORDS!"

The term 'fund balance' is simply the abstract mathematical number obtained by subtracting the liabilities of a fund from the assets of that fund, hence – net assets. It is equivalent to owners' equity in a business, or net worth of a person or family. It is what would be left over if all the assets of the fund were converted to cash and used to settle all the liabilities. Hopefully there would be something left over; if not, then the fund is said to have a deficit (see above).

Fortunately accountants do not normally need to use the verb forms of this word, as they relate to planning and budgetary processes, not to financial reporting. And it is much better not to formally use it to refer to assets, as that is very likely to confuse the reader. Either use words like 'assets' or 'resources,' or describe the particular type of asset in question, e.g., cash.

Try to avoid this word completely, but if you are going to use it, be very careful to make it clear to the reader exactly what meaning is intended.

Endowment

This word actually is not an accounting term at all, but often finds its way into financial statements. It is used in fundraising and in investment management to describe a group of assets held to generate long-term investment return (current income, such as interest and dividends, and – hopefully – capital gains). When used in financial statements, it should *always* be preceded by an adjective describing which of the three species of endowment is being referred to. These three are: (1) 'permanent' – sometimes called 'pure' or 'true' – endowment (donor restricted such that the principal can never be spent), (2) 'term' or temporary endowment (also donor-restricted, which cannot be spent for a while, but after some stated period has elapsed or other specified event has occurred, is available for spending), and (3) 'quasi-endowment' – sometimes referred to as 'board-designated endowment' or 'funds functioning as endowment,' which is endowment only because the organization's governing board has formally said it is, and, since the board can always change its mind, is unrestricted and available for spending any time the board wishes.

One use of this word which should *never* be sanctioned is in the phrase 'board-restricted endowment.' This will mislead the reader. A board 'restriction' has no legal significance as it can be lifted at any time. A board can 'designate' (the preferred term) or 'appropriate' (a less desirable term since it has connotations of a governmental budgetary process) some of its unrestricted net assets for some purpose, but cannot legally restrict. Board-designated endowment funds are reported in the unrestricted class of net assets.

Grant

This is another term that really has no precise meaning to an accountant. It is a fundraising term, also used by funders to describe money they are awarding to a 'grantee.' Such 'grantors' may be governments, foundations, corporations or (less often) individuals. For accounting purposes, grants are reported either as contributions or as exchange transactions (see above), depending on the terms of the grant. The difference is solely one of timing – when the revenue is reported. Contributions are reported as revenue immediately upon receipt of a contribution, or of an unconditional promise to make a contribution (commonly referred to as a 'pledge'). Exchange transactions are reported as revenue only when the exchange is completed – i.e., when the payor has received whatever goods or services are being paid for.

Some grants are paid in full up front, some in fixed installments, and some in portions as allowable costs are incurred (referred to as 'cost-reimbursement' grants). Some are conditional upon one or more uncertain future events occurring (the most common type of this is the 'matching' or 'challenge' grant wherein the grantee must raise matching money from other sources before becoming entitled to receive the grant); these are not reported as revenue until the condition has been met. Most are restricted by the grantor for some specific purpose, to be used during a stated time period, or to be held as endowment (see above); these are reported in one of the restricted classes of net assets, depending on whether the restriction is temporary or permanent. Grants that are exchange transactions are always reported in the unrestricted class because 'restrictions' as contemplated by FASB arise only in the context of contributions. This is true even for exchange transaction revenue whose use is legally limited by law or by contract, for example revenue that must be retained in a sinking fund (sorry! that's a specific term used in bond indentures) for the retirement of bonds payable.

Determining how to report grants (as contributions or exchanges) is often a matter of some judgment, as the terms of grants do not always make it clear what the true nature of a grant is; accountants must consider all the facts and circumstances surrounding the grant to make this determination. Grants are often confused with 'contracts,' and the distinction between the two is unimportant to accountants (maybe important to lawyers). In fact all grants *are* contracts, as they are agreements between the grantor and the grantee wherein each promises to do certain things. The author has no objection to use of the word in financial statements, as long as the underlying accounting has been done properly.

For more information, contact Dick Larkin, director, BDO Institute for Nonprofit Excellence℠, at dlarkin@bdo.com.

BEST PRACTICES FOR TRAVEL AND EXPENSE REIMBURSEMENT POLICIES

By Lee Klumpp, CPA

All around the country we are starting to see hints of spring and as we start thinking about spring it is natural to start thinking about spring cleaning. This year for your organization I am going to suggest that you think about doing a little spring cleaning on your organization's travel and expense reimbursement policy.

In today's ever changing world and with organization staff moving in many directions at the same time incurring expenses related to travel and other activities that require expense reimbursement as part of their role in the organization it is important to reevaluate the travel and reimbursement expense policy. The purpose of this reevaluation is to ensure that your organization is using its resources, including technology, to provide the proper monitoring and oversight in this area. Our intention here is to provide some of the best practices that we see in the industry that might be able to help your organization. Not all of these best practices will work for every organization but hopefully there is something here for everyone.

- The travel policy should be consistent with your organization's corporate culture. This is important because when policies are not aligned with the organization's culture staff will either not follow the policies or will find ways around the policies. Neither situation is good and can be a precursor for other things to come in other areas of the organization.

- The organization's travel policy should be well communicated in either a written policy manual or on the corporate intranet where policies and procedures are communicated. Either way works as long as it is accessible to all employees.

- Mandate the use of one corporate credit card program for all travel and reimbursement expenses and at the same time adopt a policy of no personal usage of the corporate card. Almost every organization that has ever issued a corporate credit card has experienced questionable charges by employees, if not fraud at one time or another. A lot of times the misuse is not necessarily intentional but it does happen. Issuing a no tolerance policy on the personal use of the corporate credit card does not necessarily mean termination for violators but it does mean some kind of disciplinary action such as counseling/ warning or documented write-up. These actions will at least signal that the organization is serious about the policy.

- Eliminate disbursement of cash advances. The elimination of this policy will save considerable time in the accounting and finance function. The most significant savings is the time spent accumulating the support from individuals with outstanding advances. Oftentimes we find cash advances outstanding from former employees. It is very difficult to get the documentation to clear the advance once an employee has left the organization much less collect the outstanding balance. If your organization finds itself in this situation and the amount is over $600, you may want to discuss the possibility of issuing the former employee an IRS form 1099-Misc with your tax advisor.

- Consider centralization of corporate travel management functions for domestic, satellite, field and international offices. This

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TRAVEL AND EXPENSE REIMBURSEMENT POLICIES

has been a practice of many large nonprofit organizations for some time now and can even be useful in smaller organizations with a lot of travel requirements. Since many organizations today operate in multiple offices, both domestically and abroad, it makes economical sense to centralize the corporate travel program and operations in one location. Aside from minimizing administration expenses, consolidating all travel and reimbursement expenses purchase data will enable travel program managers to have an even greater advantage when establishing an issuer relationship, as well as negotiating with preferred vendors. Centralization of these functions, however, is very dependent on the corporate culture of an organization. Some international organizations have a very strong corporate headquarters that exerts significant control over regional offices; while some of these organizations have regional offices acting almost as separate businesses. The organization's culture will determine how much centralization of travel functions is possible. Keeping flexibility in the policy to address cultural and working differences in numerous countries, states and local jurisdictions will also be a necessity with a central office. The central management team must be cognizant of environments in which the organization operates and ensure that they are addressing the needs of all its constituents.

- Explore the elimination of written/manual expense reports. While eliminating hard copy expense reports may not be an option for some organizations, others may find manual expense reports are not a necessary piece of the travel reporting process. If this is the case, organizations should look into the possibility of an automated online expense reporting system. Previously, expense reports were generally completed using a standard template, with employees inputting all credit card and cash purchases. Options now exist for a much more efficient process, where an online expense reporting template is automatically populated by employee with transactions on the corporate credit card. Each transaction can be automatically linked to a general ledger code based on the type of merchant from which the purchase was made. The cardholder just has to verify the transactions and the accounting codes, and add cash transactions to complete the expense report process. This automated process also allows for the review and approval process to be automated.

- Provide notification of employee reimbursements of travel and reimbursement expenses via e-mail. Employees who travel frequently are often overwhelmed with the number of expense reports they need to submit, and when reimbursement for cash or incidental expenses is received, employees often don't know which expense report it's related to. An e-mail notification of the reimbursement amount, and its associated expense report, would save the employee time in researching and reconciling their reimbursements. Some automated expense reporting systems have this as a built-in feature. Additionally, the majority of organizations process the payment of reimbursements through a direct deposit into employees' bank accounts to expedite and automate the reimbursement process.

- Utilize online management reporting features of your corporate credit card provider and your expense reporting system. Information is a very powerful tool – particularly when it's timely and readily available for use. An organization can coordinate between its corporate credit card issuer and expense reporting software vendor to receive a variety of management reports to meet the needs of multiple internal constituents. Reports can be provided to assist with the administration of card programs, provide transaction information, identify policy compliance exceptions, conduct financial analysis and assist with vendor negotiations. These management reports can highlight employee misuse and policy exceptions when employees exceed the business parameters defined by the organization. Instances of accounting coding errors are substantially diminished with the use of an expense management package that maps to a general ledger or accounts payable system.

- Conduct random audits of expense reports to ensure compliance with organizational policies. Audits are generally conducted to ensure compliance with current tax regulations, identify employee misuse, correct expense category or accounting coding errors and ensure compliance with the travel policy. Use of technology can ease the burden of these audits through the utilization of management reports. Management reports can highlight employee misuse and policy exceptions when employees exceed the business parameters defined by the organization.

- Secure a mandated travel agency for your organization. To get the most out of your organization's travel dollars, a corporate travel program with a reputable corporate travel company in which you can establish a secure and exclusive relationship can help ensure that organization travel policy guidelines are followed. In most cases, the corporate travel company is able to fully integrate the organization's policies into their computerized booking system. To get the most out of the corporate travel program all employees should be required to use the program. By booking all travel through one agency it helps the organization accrue important transaction data for management reporting purposes, as well as vendor negotiations. Additionally this arrangement can help enforce the policy to use the mandated corporate credit card by only accepting payment in this manner.

Hopefully these best practices have provided you with some ideas on ways to streamline the expense reporting process for your organization.

For more information, contact Lee Klumpp, director, at lklumpp@bdo.com.

BDO INSTITUTE FOR NONPROFIT EXCELLENCE℠ IN THE NEWS

Members of the Institute are requested to speak on a regular basis at various conferences due to their recognized experience in the industry. The following is a list of some of the upcoming events where you can hear BDO Institute professionals speaking. In addition to these external venues, BDO will be offering both live local seminars, as well as webinars on such topics as nonprofit tax and accounting updates, international accounting and business issues, disaster recovery and preparedness and insurance needs, executive compensation and employee benefit plan issues. Please check BDO's website at www.bdo.com for upcoming local events and webinars.

APRIL

Mike Sorrells will be conducting a nonprofit tax update session on April 27 at the Maryland Society of CPA's 2012 Government and Not-for-Profit Conference in College Park, Md.

MAY

Mike will be presenting a nonprofit tax update session at the Texas Society of CPAs Non-Profit Organizations Conference being held in Dallas, Texas on May 21.

Dick Larkin will be presenting two separate sessions at the Georgia Society of CPAs 2012 Nonprofit Conference being held in Atlanta on May 24. He will present "Blue Ribbon Panel – How GAAP and GAAS for Nonprofits Happen – Who, When, What" and "Accounting and Auditing Update (including enhanced Independence and the Yellow Book)."

Mike will be conducting an all day course on May 25 entitled "Form 990: Moving Beyond the Basics" for the Maryland Society of CPAs in Rockville, Md.

JUNE

Dick will be presenting a session entitled "Advanced Accounting Issues for Nonprofits" at the Illinois Society of CPAs at their Not for Profit Complex and Emerging Accounting and A-133 Issues Conference on June 12 in Chicago, Ill.

Mike will be presenting a nonprofit tax update session for the Nebraska Society of CPAs at the Not-for-Profit Conference on June 14 in Lincoln, Neb.

Dick will be presenting a session on financial statement interpretation at the AICPA National Not-for-Profit Industry Conference on June 20 in Washington, D.C.

OTHER ITEMS TO NOTE....

Exempt Organization Select Check

The IRS now provides the online search tool, Exempt Organization Select Check, that consolidates three former search sites into one. (See additional discussion in Paul Hammerschmidt's article on page 3.) The tool allows users to select an exempt organization and check information about its federal tax status and filings. The tool provides expanded search capability and more efficiency to search for organizations that:

- Are eligible to receive charitable contributions
- Have had their tax-exempt status automatically revoked because they failed to file their Form 990 or notices annually for three consecutive year periods
- Have filed a Form 990-N annual electronic notice

The data is generally updated on the third Monday of each month for organizations that have had their exemption automatically revoked and for those organizations that are eligible to receive deductible contributions. The system is updated weekly for the 990-N filings.

In addition to searching for a specific organization, users may download a complete list of each of the three types of organizations using this tool. You can access this tool at http://apps.irs.gov/app/eos.

IRS Finalizes Regulations on Public Inspection of Exemption Applications and Related Documents

The IRS regulations confirm that when the IRS determines that an organization is tax-exempt, the application and any supporting documents upon which the determination is based are open to public inspection. These regulations also note that negative determinations issued to organizations that applied for an exemption are also available for public inspection. The regulations also cover any subsequent letters or documents issued to the applicant that relates to the application noting that these are also open to public inspection.

The regulations continue to state that these documents are not open to public inspection before a determination is made. Therefore, if a request for exemption is made and then withdrawn the documents are not open to public inspection.

Final Employee Benefit Plan Fee Disclosure Regulation Issued

The Department of Labor released final regulations under 408(b)(2) on Feb. 2, 2012, to help employee benefit plan sponsors and fiduciaries understand the administrative and investment costs that are being paid from their plan's assets. As a plan sponsor and fiduciary you are required to know what fees the plan pays so that you only allow reasonable fees to be paid from plan assets. In addition, as the plan sponsor or fiduciary you are required to provide disclosure of the fee and investment costs received from your service providers to your plan participants. The initial annual disclosure of plan-level and investment-level fees and expenses must be provided to participants no later than Aug. 30, 2012, and the first quarterly statement must be provided to participants no later than Nov. 14, 2012. To learn more about these regulations and disclosure requirements see the Winter 2012 issue of the EBP Commentator published by BDO's Employee Benefit Plan Audit Practice at http://www.bdo.com/download/1962.

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BDO NONPROFIT & EDUCATION PRACTICE

For 100 years, BDO has provided services to the nonprofit community. Through decades of working in this sector, we have developed a significant capability and fluency in the general and specific business issues that may face these organizations.

With more than 2,000 clients in the nonprofit sector, BDO's team of professionals offers the hands-on experience and technical skill to serve the distinctive needs of our nonprofit clients – and help them fulfill their missions. We supplement our technical approach by analyzing and advising our clients on the many elements of running a successful nonprofit organization.

In addition, BDO's Institute for Nonprofit Excellence℠ (the Institute) has the skills and knowledge to provide high quality services and meet the needs of the nation's nonprofit sector. Based in our Greater Washington, DC Metro office, the Institute supports and collaborates with BDO offices around the country and the BDO International network to develop innovative and practical accounting and operational strategies for the tax-exempt organizations they serve. The Institute also serves as a resource, studying and disseminating information pertaining to nonprofit accounting and business management.

The Institute offers both live and local seminars, as well as webinars, on a variety of topics of interest to nonprofit organizations and educational institutions. Please check BDO's web site at www.bdo.com for upcoming local events and webinars.

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