

## Top Issues Nonprofits Will Face This Year

2018 was a banner year for reporting and standard changes in the nonprofit financial arena. There have been numerous new changes in nonprofit financial reporting and revenue recognition that have gone into effect this year, as well as dealing with the effects of the new tax law changes. All of these changes are taking place while you still have to address every-day challenges in this global, technology-driven business environment.

Here is a breakdown of what the AICPA sees as the top concerns for every nonprofit organization this year (taken from the 2019 AICPA Not-for-Profit Audit Risk Alert).



- Revenue Recognition and Grants and Contracts - FASB's new revenue recognition model (ASC 606) replaces virtually all existing guidance for recognition of revenue from exchange transactions. The largest change is that nonprofit organizations need to identify each revenue stream as an exchange transaction, a contribution or something between the two. Its identification will make a difference in how it is recorded now and in the future. To learn more about the specifics of these changes, here is a link to our recent article, [Nonprofit Revenue Recognition: The New Rules](#).
- Financial Statement Reporting Standard - FASB also issued new guidance on financial statement reporting (ASU No 2016-14). The two major provisions in this new standard is that organizations are now required to provide qualitative and quantitative information about how they manage their liquid resources and they must also present natural expenses in a functional basis. There are a few other changes as well. To learn more about the specifics of these changes, here is a link to our recent article, [New Nonprofit Reporting Standards](#).
- 2017 Tax Cuts and Jobs Act Provisions Affecting Nonprofits - The jury is still out on how the new tax reform law may affect charitable giving in 2019, but the greatest change that affects organizations now is the new excise tax on qualified transportation benefits, such as an ORCA pass or parking pass you might give to your staff. It is a straight 21% of these qualified costs. For more information on this new tax, look [HERE](#).
- Cyber Issues - These issues may actually be your organization's number one challenge this year. Regardless of size, mission, or complexity, no organization is completely safe from cyber-attacks. Nonprofits are a receptacle for significant amounts of sensitive data, such as donor databases, member and participant data, electronic dues payments and employee profiles. Every organization must be vigilant in ensuring proper safeguards. Here is a Journal of Accountancy article on [Why Cyberdefenses are Worth the Costs](#).



We are asked many questions related to financial best practices for nonprofit organizations. We thought we'd highlight a few:

Q: This new transportation benefit tax is driving me crazy! I believe we're supposed to make estimated payments for it, but I don't know the amount or even how to actually make an estimated payment. Help!

A: Well, you're not alone in being confused about this new excise tax on certain fringe benefits. As more fully explained in our [June, 2018 newsletter](#) the tax will be on the costs you've paid for qualified transportation fringe benefits. The tax is a straight 21% of the total amount you have paid (less \$1,000). The final amount will be disclosed on your organization's IRS Form 990-T, but you will need to make estimated payments each quarter along the way. They will be due on the 15<sup>th</sup> day following each quarter end. The easiest way to calculate the amount owed would be to identify the total amount of qualified transportation benefits you have paid in the quarter, multiply that by 21% and pay that amount via EFTPS as part of your IRS Form 990-T estimated tax. These estimated tax payments will be summarized on the tax return so that by the time you file the final IRS form 990-T, all the payments will have been made, and you may actually receive a bit of a refund for paying them on time. The IRS has said it will not levy any penalties for this first year if you have not made payments on time, but they will next year.

For more information about this new tax, look [HERE](#).

Q: My Executive Director wants me to show 100% of her salary as a program expense on the tax return. She also has asked that I ensure that no more than 5% of our total costs go to fundraising. But this doesn't seem very realistic. Are there some guidelines that I need to adhere to when coming up with these expense allocations?

A: Yes, there are certainly pressures to show higher percentages as program expenses in the statement of functional expense schedule on the tax return. After all, the IRS Form 990 is public information and donors can easily see how much of your work is spent in program efforts and judge your organization accordingly. However, there are some guidelines on how to allocate costs (see our article [HERE](#)), and they may or may not coincide with your Executive Director's wishes.

## *J&A Learning Opportunities*

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Over the past couple years we have accumulated a library of webinar videos on various topics related to nonprofit financial health. See if any of these might be helpful to you. The cost is just \$25 for each 2-hour recorded webinar. To purchase, click on the program title:

- [Managing Restricted Net Assets](#) – learn how to capture and properly release restricted and designated funds
- [Internal Controls for Small Organizations](#) – how to develop and adjust internal controls in small operations
- [Nonprofit Finance Essentials](#) – covers the basic nonprofit accounting concepts, terminology and rules
- [Understanding the IRS Form 990](#) – using this public document to tell the true story of your organization
- [Revenue Recognition Standard](#) – how to properly identify and categorize revenue streams under the new standards
- [Board Member Basics](#) – from fiduciary duties to having adequate resources to advance your organization's mission, Board members play a large role in management. This session goes over the potential pit-falls and successes in their role
- [Preparing for the Audit](#) – how to successfully wrap your organization's year, closing the books, preparing for compliance reporting and audits and presenting the year in the best light
- [Nonprofit Expenses](#) – how to properly identify and classify expenses by natural and functional categories
- [Building Better Reports for Users](#) – creating meaningful and understandable financial reports for your organization
- [Budgeting](#) – how to develop a budget process plan and a monthly master cash budget model
- [Nonprofit Reporting Standard](#) – new GAAP guidance on disclosures for net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows
- [Financial Leadership](#) – focus on using leadership's role in sustaining sound financial health within your organization

## *We're hiring!*

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While the opportunity does not come along often, Jones & Associates is looking for one more experienced CPA to join our team. Please spread the word. For more information, look [HERE](#).

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Should you have any questions about the content of anything in this newsletter, please contact us.

Your dedicated nonprofit team at Jones & Associates PLLC, CPAs,

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