

# YH EXEMPT ORG ADVISOR

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YH Advisors is very proud to continue to publish and distribute the **YH Exempt Org Advisor**, a quarterly publication focused exclusively on the tax, legal and accounting issues of all types of exempt organizations. **YH Advisors**, located in Huntington Beach (California), is solely focused on providing value-added services to their exempt organization clientele. The firm's Shareholders, Brian Yacker and Stacey Bergman, have cumulatively worked with exempt organizations for almost 40 years.

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## RIPPED FROM *the* EO HEADLINES

### Founders of Nursery School Excessively Compensated

In a recent Tax Court case (*Archer v. Commissioner*), the Tax Court agreed with the Internal Revenue Service and concluded that the operators of a §501(c)(3) Preschool (Sara's Preschool) had been unreasonably compensated by the Preschool. The Preschool was founded and operated by a couple (husband and wife), both of whom were compensated by the Preschool as employees.

During an audit, the Internal Revenue Service alleged that both of them had been unreasonably compensated by the Preschool. It was quite straight forward for the Tax Court to agree with the Internal Revenue Service since the Preschool had not satisfied the rebuttable presumption of reasonableness (set forth in Section 4958 of the Internal Revenue Code). The consequences of not satisfying the rebuttable presumption of reasonableness shifted the burden

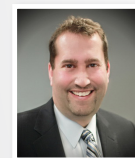
of proof from the Internal Revenue Service to prove that the compensation of the couple was unreasonable to the Preschool to prove that the compensation of the couple was reasonable. In such regard, since the Preschool did not prepare a contemporaneous Reasonable Compensation Study (or any other documentation) to support the reasonableness of the compensation of the couple, it made it easy for the Internal Revenue Service (and the Tax Court) to determine that the couple has been unreasonably compensated by the Preschool.

The end result of all this was the Internal Revenue Service successfully imposing more than \$1.3 million in excess benefit penalty taxes (under Section 4958 of the Internal Revenue Code) for the excessive salaries paid by the Preschool to the couple.

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## RIPPED FROM *the* EO HEADLINES

### Holy Baba Boey: Howard Stern Sued for Allegedly Disclosing Private Tax Information

#### Inactive = Non-Exempt

In a recent Tax Court case (Community Education Foundation), the Tax Court upheld the revocation of tax-exemption for the Community Education Foundation as a result of the fact that the organization had essentially been inactive since 2010. The Internal Revenue Service had argued (and the Tax Court agreed) that an organization should not be considered tax-exempt if they fail the operational test set forth in §501(c)(3) of the Internal Revenue Code as a result of being inactive for a number of consecutive years.

In this particular situation, the Community Education Foundation, which was formed in 2001, was initially inactive from 2001 through 2008. In 2009, the Foundation supposedly tried to organize an event, but it fell through. Subsequently, the Foundation was again inactive from 2010 through the present day. This was all enough for the Internal Revenue Service (with the Tax Court agreeing) to reach the conclusion that the Foundation was no longer operating, and hence, should not be considered tax-exempt.

While the following is not necessarily an exempt organization story, it is so interesting and outlandish and had to be included in this issue of the YH Exempt Org Advisor. In February of 2017, it was revealed that both the Internal Revenue Service and Howard Stern are being sued by an individual taxpayer for allegedly disclosing the individual taxpayer's personal information on the nationally syndicated Howard Stern Show on Sirius/XM.

How this all transpired is that at least one staffer at the Internal Revenue Service is a big fan of the King of All Media. So much so, the IRS staffer called into the Howard Stern Show and was on hold about to go on the air. While on hold, this IRS staffer, wanting to take full advantage of his time, was on the phone with the individual taxpayer (for about 45 minutes) and solicited a bevy of personal information from such individual taxpayer. Problem was, a lot of this conversation could be heard by anyone listening to the Howard Stern Show that particular day. That being said, the individual taxpayer's name, phone number and other personal information were broadcast nationally for all Sirius/XM subscribers to hear.

To bring this back to the exempt organization world, it always must be considered that certain documents (including the Form 990) of an exempt organization must be legally subject to public disclosure. Notwithstanding this public inspection requirement, we constantly see Forms 990 prepared and filed with all sorts of personal/private information contained therein.

*Please do not hesitate to contact Brian Yacker at 310-982-2803 or at [byacker@yhadvisors.com](mailto:byacker@yhadvisors.com) if you have any questions regarding the foregoing or if you need any additional information whatsoever regarding the exempt organization tax, legal and accounting services which YH Advisors provides.*

## FOCUS *on the* IRS TE/GE DIVISION

### Dirty Dozen Tax Scams of 2017

As usual, the Internal Revenue Service recently issued their listing of the Dirty Dozen Tax Scams for the upcoming year (2017). Also, as usual, one of the entries on the Dirty Dozen is particularly relevant to exempt organizations. Similar to the Dirty Dozen Tax Scams for 2016, the Internal Revenue Service is warning taxpayers about groups masquerading as charitable organizations to attract donations from unsuspecting contributors.

Perpetrators of illegal scams can face significant penalties and interest and possible criminal prosecution. IRS Criminal Investigation works closely with the Department of Justice to shut down scams and prosecute the criminals behind them.

Regarding the impersonation of legitimate charitable organizations, it has been noted that a long-standing type of abuse or fraud involves scams that occur in the wake of significant natural disasters. Following major disasters, it's common for scam artists to impersonate charities to get money or private information from well-intentioned taxpayers. Scam artists can use a variety of tactics; including contacting people by telephone or email to solicit money or financial information, or even directly contacting disaster victims and claiming to be working for or on behalf of the Internal Revenue Service to help the victims file casualty loss claims and get tax refunds. Additionally, fraudsters may attempt to get personal financial information or Social Security Numbers that can be used to steal the victims' identities or financial resources.

### The Incomplete Form 990 Problem

Going back to the future, the Internal Revenue Service has announced that they will again start deeming incomplete Forms 990 (all versions) to be returns never filed. Such proclamation only effectively applies to Forms 990 which are paper-filed since an incomplete Form 990 will not be accepted for electronic filing.

Back in the ancient times prior to the issuance of the "new" Form 990 (first effective for the 2008 tax year) and the ability to electronically file the Form 990, preparers of the Form 990 had to take special care to ensure they were filing a complete and accurate copy of the Form 990 or else the exempt organization would receive a Notice from the Internal Revenue Service noting the incompleteness and requiring that a "complete" Form 990 be filed post haste.

Seems that the Internal Revenue Service is going back to this with the recent announcement. Accordingly, it is incumbent upon preparers of the Form 990 (any version) to best ensure

### Let's Interact with the Form 990-EZ !!

In an effort to reduce the preparation error rate when exempt organizations prepare a Form 990-EZ, the Internal Revenue Service has rolled out an interactive Form 990-EZ to help preparers of such file a complete and accurate Form 990-EZ. An exempt organization is eligible to file the Form 990-EZ (as opposed to the full Form 990) if their annual gross receipts are below \$200,000 AND the fair market value of their assets is below \$500,000. The Internal Revenue Service has noted that approximately 33% of all paper-filed Forms 990-EZ which they receive contain material errors. Accordingly, the Internal Revenue Service believes that the release of this interactive Form 990-EZ will significantly reduce this Form 990-EZ 33% error rate.

The interactive Form 990-EZ (which is similar in concept to the interactive Form 1023 which the Internal Revenue Service rolled out several years ago) includes 29 "help" icons describing key information needed to complete many of the fields within the Form 990-EZ. The icons also provide links to additional helpful information available at [www.irs.gov](http://www.irs.gov). These "pop-up" boxes share information to help Form 990-EZ filers avoid common mistakes when completing the Form 990-EZ.

On the interactive Form 990-EZ, the help icons are marked in boxes with a blue question mark. The icons and underlying links work on any device with Adobe Acrobat Reader and internet access. Once completed, filers can print the Form 990-EZ and mail such to the Internal Revenue Service. It should be noted that these help icons do not in any way replace the Form 990-EZ Instructions.

In 2016, the Internal Revenue Service processed over 263,000 Forms 990-EZ, with the majority of the Form 990-EZ filings (139,000) being paper (and not electronically) filed.

# FOCUS *on the* IRS TE/GE DIVISION

## Forms 1023-EZ Now Viewable on IRS Web Site

Within the past couple of months, the Internal Revenue Service announced that they have made available on their web site ([www.irs.gov](http://www.irs.gov)) a searchable database of all the Forms 1023-EZ which have been filed with the Internal Revenue Service (through December 31, 2016) since such was introduced in July of 2014. This electronic database includes basic organizational information for approximately 105,000 small exempt organizations which filed the Form 1023-EZ with the Internal Revenue Service to obtain recognition of tax-exemption.

“The new online availability of Form 1023-EZ data is an important step forward and will allow taxpayers to more easily research information on tax-exempt organizations,” said IRS Commissioner John Koskinen. The IRS is committed to ongoing improvements in taxpayer service across the agency and we continue to look for innovative ways like this to provide taxpayers the information they need, when they need it.”

As means of a quick review of the Form 1023-EZ essentials, such can only be filed by an “eligible” small exempt organization. Examples of small exempt organizations ineligible to file the Form 1023-EZ include churches, supporting organizations, foreign organizations, private operating foundations and hospitals. A cursory review of this electronic database by a law professor at Texas A&M (Terri Helge) revealed that a good number of ineligible exempt organizations (particularly churches) had received recognition of tax-exemption by filing the Form 1023-EZ.

The response from the Internal Revenue Service in reaction to this was that there is no perfect solution to recognizing small organization applicants as tax-exempt and that the Form 1023-EZ has definitely satisfied the very important objective of significantly lessening the Internal Revenue Service’s Tax Exemption Application backlog.

In other Form 1023-EZ news from the Internal Revenue Service, a Form 1023-EZ filer will now receive an identical Determination Letter from the Internal Revenue Service as a filer of the full Form 1023. This could be a significant change in the exempt organization world since many prospective funders (private foundations / corporations) have instituted internal policies to not make grants to organizations who obtained their tax-exemption by filing the Form 1023-EZ until they have filed a Form 990 with the Internal Revenue Service.

## TE/GE Overhauling Exempt Org Audit Procedures

An important element of the Internal Revenue Service’s overhauling of their audit methodology in regards to exempt organizations is their recent introduction of new Information Document Request procedures. Beginning a month ago in April of 2017, the Internal Revenue Service has instructed their Revenue Agents conducting an audit of an exempt organization to first undertake research regarding the exempt organization before preparing and issuing the initial Information Document Requests. The Revenue Agent should determine which substantive issues should be focused upon during the audit and attempt to eliminate the typical fishing expedition the Internal Revenue Service usually undertakes when initially auditing an exempt organization. As such, the Internal Revenue Service believes it is important for the Revenue Agent to first determine which documents of the exempt organization may already be readily available to the Internal Revenue Service so as not to request such documents.

The initial contact by the Internal Revenue Service to the exempt organization should consist of the Revenue Agent calling the exempt organization to discuss the identified issues, clarify the Information Document Requests to be issued and to determine the appropriate response date for the exempt organization; typically, the exempt organization should be granted two weeks to respond to the Internal Revenue Service’s Information Document Requests with 15-day extensions to respond typically granted.

# FOCUS *on the* IRS TE/GE DIVISION

## Issued/Proposed EO Guidance

On a related front, also in the exempt organization Internal Revenue Service audit area, last year, the Internal Revenue Service developed algorithms to help them determine which Forms 990 that they should be selecting for audit. This new audit selection methodology arose because of the Internal Revenue Service's need to focus resources on the noncompliant exempt organizations by hunting for data indicators of noncompliance by using predictive modeling regarding whether an exempt organization is likely to be noncompliant. Accordingly, the Internal Revenue Service has now developed over 250 different queries which are applied to all Forms 990 filed with the Internal Revenue Service (which manually or electronically filed).

### IRS Notices

IRS Notice 2017-10, issued in late December of 2016, set forth the intent of the Internal Revenue Service to challenge syndicated conservation easement transactions based upon the alleged inflated charitable contribution deductions being taken by participants in these transactions. Very briefly, promoters of syndicated conservation easement transactions identify real property which might be a candidate for a conservation easement and then looks for "investors" who want to obtain a super-charged charitable contribution deduction. The Internal Revenue Service wishes to require anyone who entered into a syndicated conservation easement transaction on or after January 1, 2010 to disclose such transaction on a Form 8886.

### Proposed Legislation – SUN Act

Senator Jon Tester (D-Montana) recently introduced a bill which would require disclosure of large donors to exempt organizations engaged in politicking. The objective of such a bill would be to increase transparency and accountability and to shine light on the dark money in U.S. elections. If passed, "The Sunlight for Unaccountable Nonprofits (SUN) Act," would directly impact exempt organizations by requiring them to make public donors who give more than \$5,000 to their organization if they are engaged in electioneering. According to Tester, the bill does not impact exempt organizations that do not engage in election activities.

### Proposed Regulations

Proposed Regulations issued in late November of 2016 are intended to update the fractions rule and make it easier for modern partnerships to utilize such. Very briefly, the fractions rule was originally enacted by Congress in 1987 to prevent abuse of the unrelated business income real property exception to the debt-financed income rules through the use of a partnership by shifting taxable income to tax-exempt Partners and losses to for-profit Partners (see Section 514(c)(9)(E) of the Internal Revenue Code).

The Proposed Regulations were issued to address how preferred returns, Partner-specific expenditures, unlikely losses and chargebacks should be taken into account when determining a Partner's share of overall partnership income and loss. These Regulations apply to partnerships that hold debt financed real property and have one or more (but not all) qualified exempt organization Partners.



# FOCUS *on the* IRS TE/GE DIVISION

Summary of Recent EO PLRs / TAMs

**PLR 201706020** – club operating a golf course which was open to the general public was denied recognition of tax-exemption under §501(c)(7) of the Internal Revenue Code; the reasoning being that such club was not organized for pleasure, recreation, or other non-profitable purposes since the club received more than 25% of their total gross receipts from the general public and not from their members; this is because no more than 15% of receipts may be from the use of a §501(c)(7) social club's facilities or services provided to the general public.

**PLR 201706019** – applicant conducting professional rodeos denied recognition of tax-exemption under both §501(c)(3) and §501(j)(2) of the Internal Revenue Code; such organization did not qualify as an qualified amateur sports organization since they were a professional rodeo organization and they did not qualify under §501(c)(3) for essentially the same reasons since they were not organized and operated primarily to conduct or to support and develop amateur athletes for national or international competition in sports.

**PLR 201706018** – Internal Revenue Service revoked the tax-exemption of a §501(c)(6) association of auto dealers that sold a particular make of cars since the primary activity of the association was advertising to help their members sell more cars, and as such, the Internal Revenue Service found impermissible private inurement. Reg. 1.501(c)(6)-1 defines a business league as an association of persons having a common interest, whose purpose is to promote a common business interest (not the selling of the particular products of the §501(c)(6) members).

**PLR 201704021** – The Internal Revenue Service denied recognition of tax-exemption under §501(c)(3) of the Internal Revenue Code to a LLC which provided transportation for medical and other appointments because their business model was indistinguishable from that of a for-profit transportation company; in essence, there was no identifiable charitable class being served.

**PLR 201702041** – operation of food establishment was denied recognition of tax-exemption by the Internal Revenue Service because such activity was deemed to be too commercial in nature.

**PLR 201652028** – the tax-exemption of a §501(c)(19) veterans' group was revoked because they did not satisfy the applicable membership test; specifically, pursuant to Reg. 1.501(c)(19)-1(b), the organization failed the membership test because at least 75% of their members were not present or former members of the United States Armed Forces.

*Please do not hesitate to contact Brian Yacker at 310-982-2803 or at [byacker@yhadvisors.com](mailto:byacker@yhadvisors.com) if you have any questions regarding recent IRS activities in the exempt organizations sector.*

# EXEMPT ORGANIZATIONS A TO Z

## Insider

This is a continuing feature of the **YH Exempt Org Advisor**, at least for the next 17 editions. Each quarter, we will define an exempt organization term, starting with A and moving all the way to Z. As we have now reached the letter I, it provides the opportunity to inform exempt organizations regarding the definition of "insider" from an Internal Revenue Service perspective.

Please find following the various persons deemed to be "insiders" from an Internal Revenue Service perspective:

- Any voting member of the Board of Directors
- Any Officer of the exempt organization, including the top management individual and the top financial individual
- Any key employees
- Any highly compensated employees
- Anyone "related" to any of the above (for example, a parent, spouse or child)
- Former insiders

It is essential to understand the definition of an insider from an Internal Revenue Service perspective since transactions with insiders are highly scrutinized and reportable on Schedule L of the Form 990.

# YH CASE STUDIES

## Problems with Bylaws

When an exempt organization is initially formed, one of the important tasks to be undertaken is the preparation of the exempt organization's Bylaws or "internal laws". It is essential that any exempt organization (whether large or small) have well-drafted Bylaws. Unfortunately, oftentimes when we start working with a new client, we discover many substantial flaws with the organization's Bylaws (we always request a copy of an exempt organization's Bylaws for our permanent file).

Please find following some of the more egregious exempt organization Bylaws problems which we have identified over the years:

- ▶ Organization cannot easily locate a copy of their Bylaws
- ▶ Bylaws have not been updated in years, for example, we have seen exempt organizations with Bylaws that were last updated in 1953
- ▶ Bylaws are not in compliance with applicable state laws, for example, we have seen Bylaws for a California charitable organization which permit more than 50% of the Board to be compensated as service-providing vendors
- ▶ Bylaws do not adequately define important terms such as "special meeting" or "notice"
- ▶ Bylaws do not contain necessary provisions; for example, Bylaws silent regarding how Board members can be removed
- ▶ There are contradictory provisions contained within the Bylaws

*Please do not hesitate to contact Brian Yacker at 310-982-2803 or at [byacker@yhadvisors.com](mailto:byacker@yhadvisors.com) if you have any questions regarding the name change procedures for exempt organizations.*

# YH QUICK TIPS

## Raffle Winner Considerations

In the exempt organization world, many of our clients conduct raffles as a way to raise much-needed funds for the organization. While the legality of an exempt organization is largely legislated on a state-by-state basis, there are federal considerations for the exempt organization to be cognizant of.

From a federal perspective, a raffle is considered a form of lottery. Accordingly, an exempt organization must report certain information regarding raffle winnings using Form W-2G if the following two conditions are satisfied:

- ▶ The amount of winnings is \$600 or more; and
- ▶ The amount of the raffle winnings is at least 300 times the amount of the wager.

The raffle winnings amount may be reduced by the wager cost (at the exempt organization's option) in determining the \$600 threshold. The wager cost is the amount a person paid for the chance to win a prize. For example, if Mr. A buys a \$5 raffle ticket from an exempt organization and wins \$600, the exempt organization may reduce the winnings to \$595 (\$600 winnings - \$5 wager amount), and as such, not have to report the raffle winnings to the Internal Revenue Service because the \$600 reporting threshold is not met.

When reporting raffle winnings, the Form W-2G must be filed by the exempt organization with the Internal Revenue Service with a copy furnished to the raffle winner (the "payee"). The raffle winner should provide the exempt organization with their name, address and taxpayer identification number (usually their Social Security Number) BEFORE the exempt organization pays out the raffle winnings.

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If the raffle winnings are more than \$5,000, the exempt organization must withhold 25% from the winnings (which can be reduced by the wager) and report such amount to the Internal Revenue Service Form W-2G. The exempt organization will be responsible if it fails to withhold the necessary amount. The exempt organization may be required to withhold 28% of the total winnings ("backup withholding") if the raffle winner fails to furnish a correct Social Security Number. If the raffles winnings involve noncash prizes (which is typical when an exempt organization conducts a raffle), these withholding obligations are still relevant.

For example, if Susan purchased a \$5 raffle ticket from an exempt organization and won a car with a fair market value of \$25,005, then \$6,250 of raffle withholding must be remitted to the Internal Revenue Service (either paid by Susan to the exempt organization or paid by the exempt organization to the Internal Revenue Service on Susan's behalf). On the Form W-2G, the exempt organization would need to indicate the fair market value of the prize (\$25,005) in Box 1 and the amount of the withholding tax paid (\$6,250) in Box 2.

If the exempt organization pays the withholding taxes on behalf of the raffle winner, it will need to undertake a gross-up calculation which would require the exempt organization to pay the withholding tax in an amount of 33.33% of the fair market value of the raffle prize.

Form W-2G may be issued immediately or by January 31 following the year of the payment to the IRS and the payee.

# YH PRESENTS

“So Now You Know...”

Many common misconceptions about exempt organizations exist as it is often thought that once federal and state income tax exemptions are obtained, an exempt organization is precluded from paying all forms of taxes. Unfortunately, that is not the case and many different types of taxes are still due from exempt organizations. Most notably, employment (payroll taxes), property taxes (although exemptions are available in specific instances) and sales taxes. Sales tax may be collected from customers when goods are sold by an exempt organization. The EO essentially acts as a pass-through directly remitting amounts collected to the applicable taxing authority.

The one “hidden” tax that we see so many exempt organizations are unaware of is use tax. Generally, when out of state goods are purchased and sales tax is not paid or remitted, a state taxing authority will require a use tax return to be filed and use tax remitted. In this instance, there is no pass-through element; this becomes a straight tax to the exempt organization utilizing the goods purchased out of state and must be recognized as an expense.

So how does an exempt organization monitor such taxes without unreasonably increasing administrative burden? Best thing to do would be to “flag” any purchase invoices for goods from out of state vendors as that will be the most common way in which a use tax will arise. Typically, in state purchases will automatically include sales tax.

**So now you know** that exempt organizations (even §501(c)(3) organizations) are usually not exempt from paying use tax even though they are exempt from the payment of income taxes.

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# THE EO ACCOUNTING SPOTLIGHT

## 2017 A&A Update

Staying abreast of new accounting standards taking effect in the near future is no easy task, especially when managing the day to day operations and/or accounting infrastructure of an exempt organization. However, this knowledge is crucial to ensuring that such an infrastructure exists to support the design and implementation of these standards so that the organization remains in compliance with GAAP (Generally Accepted Accounting Principles). Accordingly, please find below the top 5 ASU (Accounting Standards Updates) affecting exempt organizations:

### 1. ASU 2014-15 - Going Concern Considerations

*Effective for periods ending after December 15, 2016*

This standard is a major swing for all entities, including exempt organizations. For the first time, the responsibility surrounding assessing and disclosing substantial doubt in an entity’s ability to meet its future obligations is shifted from the auditor to the organization’s management. Historically, auditors were required to analyze various factors in an entity’s financial health and determine if, based on auditor’s judgment, the organization could essentially survive for 12 months beyond the Statement of Financial Position date. With ASU 2014-15, management is now required to perform such an analysis and provide the auditor with management’s plan for survival. Additionally, the prospective period has changed from 12 months from year end to 12 months after the financials are issued.

### 2. ASU 2016-14 - Financial Reporting Framework Update

*Effective for periods ending after December 15, 2017*

Affecting only exempt organizations, ASU 2016-14 will greatly overhaul the basic set of GAAP financial statements for exempt organizations. Most notable, net asset classifications will decrease from the current breakout: unrestricted, temporarily restricted and permanently restricted, to the reduced two-bucket breakout: with donor restrictions and without donor restrictions. Additionally, the other major change to the financials is the breadth and volume of required footnote disclosures, with the most significant surrounding expense classifications. Once effective, this standard will require exempt organizations to report expenses both naturally (by account or major account group) and based on functional classification (programmatic, management & general and fundraising). The methodology used to allocate indirect expenses between functional classes will also need to be disclosed. Exempt organizations are urged to gain a thorough understanding of the requirements of this standard prior to implementation so that an appropriate infrastructure can be enacted to support the more cumbersome reporting framework.

### 3. ASU 2015-17 - Deferred Income Taxes

*Effective for periods ending after December 15, 2017*

Not all exempt organizations will be affected by this new standard, only those subject to a material amount of unrelated business income and private foundations subject to excise taxes. Once effective, this standard will require all deferred tax assets and liabilities to be classified as non-current on the Statement of Financial Position.





# THE WORLD

## According to GAAP

### Going Concern

#### 4. ASC Topic 606 - Revenue Recognition

*Effective for periods ending after December 15, 2018*

This standard has been in discussions for many years and has been highly debated among the exempt organization accounting community as to how it will truly affect exempt organizations. Ultimately, the standard changes the recognition criteria for contracts involving exchange transactions. Contributions, investment income and rental income are not affected by this standard, only exchange transactions (even government grants and contracts treated as exchange transactions). The overarching concept of the revenue recognition standard is timing. Recognition of revenue will now be based on specific terms of a contract as opposed to industry specific guidance. Essentially, revenue can only be recognized when earned and the contract in place surrounding the transaction will govern the definition of "earned".

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#### 5. ASU 2016-02 – Accounting for Leases

*Effective for periods ending after December 15, 2019*

Another standard that has been in discussions publically for many years that finally "went live". Additionally, this standard will require exempt organizations to ensure the accounting infrastructure in place will support the new required reporting dynamics of this standard. Exempt organizations should review and understand this standard prior to its effective date. With this new standard, all leased property and equipment will be treated as a capital lease, thus reported on the exempt organization's Statement of Financial Position. Assets will be recognized as intangible assets entitled "Right of Use Asset" and a corresponding liability will be recorded at the present value of the future minimum lease payments. Amortization and any related interest expense will be recognized but lease payments made will no longer affect the bottom line on a monthly basis.

The concept of "going concern" is the basic assumption in accounting that an organization will continue to operate and continue its mission and programmatic activities for a reasonable period of time without having to liquidate assets and dissolve. Historically, it has been the responsibility of an organization's auditors to assess if this is in fact the case or if there are circumstances that exist that would put the organization's ability to continue as a going concern into question. However, with the implementation of ASU 2014-15, "Presentation of Financial Statements – Going Concern, Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern", that responsibility has now shifted to an organization's management.

Management of an organization is now required to analyze and determine if there are conditions or events that put into question the organization's ability to continue as a going concern within one year from the date the financial statements are issued or available to be issued. If conditions or events due exist, management must prepare a plan that they will be able to implement and where once implemented would mitigate the risk that they will not be able to continue as a going concern. All relevant information must be disclosed in the financial statement footnotes. If management is not able to prepare a plan that relieves the substantial doubt of the organization's ability to continue as a going concern, all relevant information must be disclosed in the financial statement footnotes and the financial statements may need to be prepared on the liquidation basis of accounting.

This standard is in effect for all fiscal years ending after December 15, 2016.

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## EO COMPLIANCE TIDBITS

We are doing something a little different in this Section of the YH Exempt Org Advisor this quarter; instead of providing technical guidance regarding the preparation of some exempt organization tax return, we have decided to have our Senior Manager, Melissa Roshnaye, provide a first person account regarding her experiences preparing a full Form 990 and Form 990-PF for the first time.

The last 13 years of my career in accounting have been concentrated in the areas of financial statement audits and consulting. I've had "big picture" exposure to the Forms 990 and 990-PF, but never been on the "front lines" of the information tax return preparation process. Traditional accounting firms (both large and small) have very separate and distinct Audit and Tax departments which means that an exempt organization will be subjected to the typical audit process of having to pull tons of different documents and then be further subjected to a second set of requests for necessary documents from the Tax department. Oftentimes, items requested by the Tax department are very similar to items already provided for the financial statement audit and such leads to frustrations and wasted time for the exempt organization.

One of the most valuable aspects of an exempt organization working with our firm for all their annual reporting needs (audit / information tax return

preparation) is our "one firm" approach. At the beginning of any engagement, our team members come together to discuss the needs of the organization and coordinate our efforts so that there is a comprehensive request list and a seamless transition from the audit to the Form 990 preparation. We also place a significant emphasis on cross-training within our firm so that every member of the team is familiar with the reporting requirements required by accounting standards and other reporting agencies such as the Internal Revenue Service, state tax boards, state Attorney General, etc.

For me, our "one firm" approach means that I am now learning how to prepare Forms 990 and 990-PF just the same as a new staff associate. This opportunity has allowed me to further refine my expertise with exempt organizations and find new ways to improve our audit process and be of valuable service to our exempt organization clients and other team members.

## YH RESOURCES, NEWS & UPDATES

### The YH EO Resource Alert

As a regular feature of the **YH Exempt Org Advisor**, we continue to highlight different exempt organization resources free of charge in the public domain. This quarter we are highlighting the IRS recent release of Issue Podcasts. An Issue Podcast is a resource the Internal Revenue Service uses for sharing technical knowledge; they are a short (approximately 15 minute), on-demand audio and visual presentation that includes a brief summary and analysis of an issue and references to key resource materials. There are currently Issue Podcasts addressing:

- ▶ When are Commercial-Type Activities a Substantial Nonexempt Purpose for an IRC 501(c)(3) Organization?
- ▶ IRC 501(c)(3) Proposing Denial

Issue Podcasts can be found here:

[www.stayexempt.irs.gov/Resource-Library/issue-podcasts](http://www.stayexempt.irs.gov/Resource-Library/issue-podcasts)



# YH RESOURCES, NEWS & UPDATES

## YH Presentations

Please find following a listing of the presentations which YH Advisors has presented, or will present, during the May 2017 – September 2017 time period. Please do not hesitate to contact us for more information if you have interest in receiving the presentation materials or attending any of the upcoming presentations.

May 23, 2017 | Hattiesburg, MS  
**Form 990 Core Form Basics**

May 24, 2017 | Hattiesburg, MS  
**Nonprofit Financial Statements**

Jun 15, 2017 | New York, NY  
**Self-Regulation of Nonprofits**

Jun 23, 2017 | Washington DC  
**Form 990 Group Discussion**

Jun 23, 2017 | Washington DC  
**Tax Controversy War Stories**

Jun 29, 2017 | Newark, NJ  
**Nonprofit Accounting Case Studies**

Jun 30, 2017 | Newark, NJ  
**Nonprofit Financial Reporting**

Aug 3, 2017 | Irvine, CA  
**Nonprofit Basics**

Aug 30, 2017 | Kansas City, MO  
**Form 990 Core Form**

Aug 31, 2017 | St. Louis, MO  
**Form 990 Core Form**

## Upcoming YH Webinars

YH Advisors will continue to periodically conduct (about 6 times per year) 100-200 minute interactive technical webinars focusing on the tax, legal and accounting issues most relevant to exempt organizations. Please find following our upcoming YH Webinar schedule (please be aware that this is of course subject to change):

July 2017  
**Playing IRS Exempt Org Audit Bingo**

September 2017  
**Unrelated Business Income Case Studies**

October 2017  
**25 Ways to Lose Your Tax Exemption**


December 2017  
**Contributions Revenue**

February 2018  
**Private Foundations**

## Where to Find YH Advisors in the Social Media World

 @YHAdvisors

 YHAdvisors

 Please connect with Brian Yacker and Stacey Bergman

## Offsite Presentations

Approximately a half dozen times a year, YH Advisors is engaged to provide customized exempt organization tax, legal and/or accounting presentations to a firm, association or company. For example, in July of 2016, YH Advisors conducted a full-day nonprofit accounting presentation for a CPA firm located in Northern California and also conducted a two-hour presentation for a California private foundation regarding how to interpret an exempt organization's financial statements and Form 990.

Additionally, in the past, we have conducted full-day customized presentations (for which CPE can be awarded) for firms, associations or companies in the following subject areas:

- Form 990: What Your Need to Know
- Form 990: The Schedules
- Form 990-PF Primer
- Advanced Private Foundations Issues
- The Unrelated Business Income Tax
- Advanced Exempt Organization Issues
- Nonprofit Accounting, Part I
- Nonprofit Accounting, Part II

Finally, we can conduct shorter presentations (half-day, 2 hours, 60 minutes) for which CPE can be awarded for firms, associations or companies in the following subject areas (certainly not an all-inclusive listing):

- Reporting of Special Events
- The Schedule A Public Support Test
- What Charity Board Members Need to Know
- Tax & Legal Issues for 501(c)(6) Business Leagues
- How to Avoid the Ire of the IRS + Attorney General

## Next Issue of the YH Exempt Org Advisor

The Summer 2017 edition of the **YH Exempt Org Advisor** will be published in late August of 2017.

# YH RESOURCES, NEWS & UPDATES

## YH Webinar Recordings Available to Purchase

To date, we have conducted 30 different exempt organization webinars. We record each of the webinars which we conduct and we are now making each of our webinar recordings available for purchase. Please find following a listing of each of the different webinar recordings which we have available for purchase:

#	Webinar Title	Date Conducted	Duration (Minutes)	Recording Cost
1	The Essential Documents for any Exempt Organization	03/08/12	60	\$99
2	Charity Fundraising Special Events: A Case Study Approach	05/08/12	100	\$179
3	2011 Form 990 Update: What's New, What's Not & What's Hidden	07/19/12	100	\$179
4	The Hottest "Hot Button" Issues in EO Compensation	10/04/12	100	\$179
5	The Most Perilous Traps & Pitfalls for Private Foundations	12/18/12	100	\$179
6	Ask the EO Experts	02/12/13	60	\$99
7	2012 Form 990 Update	05/08/13	100	\$179
8	Tips and Tricks to Avoid the Unrelated Business Income Tax	12/10/13	100	\$179
9	Demystifying the Public Support Test	01/22/14	100	\$179
10	Dirty Dozen Transgressions of Private Foundations	02/27/14	100	\$179
11	EO Tax/Legal Update: The Good, Bad & Ugly	05/06/14	100	\$179
12	Guided Tour of the Form 990 Core Form	07/08/14	200	\$249
13	Form 990: The Schedules	07/15/14	200	\$249
14	Form 990-PF Primer	07/22/14	200	\$249
15	Private Foundation Excise Taxes	07/29/14	200	\$249
16	A Case Study Approach to the Unrelated Business Income Tax	10/01/14	100	\$179
17	Avoiding Trouble when Conducting Charitable Gaming Activities	12/09/14	100	\$179
18	Best Practice Tips for Exempt Organizations re Internal Controls	01/20/15	100	\$179
19	2015 Exempt Org Update (Form 990 + A Whole Lot More)	04/29/15	100	\$179
20	Revealing the Hidden Elements of the Form 990 + EO Financials	06/14/15	100	\$179
21	Functional Expense Allocations + Joint Costs	08/13/15	100	\$179
22	The Unrelated Business Income Tax from an Internal Controls Perspective	10/28/15	100	\$179
23	The Schedule A Public Support Test Made Easy	12/17/15	100	\$179
24	The Essential EO Ratios + Benchmarks	02/10/16	100	\$179
25	Exempt Organization Tax, Legal & Accounting Update	04/21/16	100	\$189
26	The Most Glaring Form 990 Core Form Errors	07/14/16	100	\$189
27	The Most Glaring Form 990 Schedules Errors	09/07/16	100	\$189
28	Common EO Financial Statement Deficiencies	10/02/16	100	\$189
29	Reporting Disparities: GAAP v. Form 990	01/11/17	100	\$189
30	2017 Exempt Org Tax, Legal & Accounting Update	04/26/17	100	\$189

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