Nonprofit Advisor
Q1 Winter 2016

Windes Nonprofit Advisor

The Windes Nonprofit Advisor is a periodic technical publication focusing on the tax, regulatory, and accounting issues that nonprofit organizations routinely confront.

On the tax side, the Windes Nonprofit Group possesses experience in preparing and reviewing Forms 990, 990-T, 990-PF, and state tax-exempt forms, in addition to having experience in the preparation and filing of both federal and state tax exemption applications for public charities, private foundations, and other exempt organizations. Furthermore, we can assist in providing valuable guidance (governance / reasonable compensation documentation / public support test / special events / lobbying / transactions with related parties) to nonprofit organizations.

On the audit side, the Windes Nonprofit Group prepares audited financial statements and ERISA audits for over 80 nonprofit organizations. For retirement plans, Windes has experts on staff for §403(b) plan administration and compliance, including plan document issues, Form 5500 preparation and filing, non-discrimination testing and government compliance programs.

Our Nonprofit Group is composed of the following individuals who are dedicated to providing nonprofit organizations with high-level tax, regulatory and accounting consulting, tax compliance services, and financial statement audit and assurance services:

Ron Kulek, CPA	Audit Partner
Lance Adams, CPA	Audit Partner
Michael Barloewen, CPA, CGMA	Audit Partner
Tom Huey, CPA	Audit Senior Manager
Kelly Buck, CPA, MAcct	Audit Senior
Richard Green, CPC, APA	Employee Benefit Services Partner
Donita Joseph, CPA, MBT	Tax Partner
Amy Vaughn, JD, CPA, LLM	Tax Senior Manager
Chérie Williams	Tax Senior

Please do not hesitate to contact any member of the Windes Nonprofit Group toll free at **844.4WINDES** (844.494.6337) or via email at nonprofit@windes.com.

New Revenue Recognition Rules and Their impact on Nonprofit Organizations

In May 2014, as the result of many years of jointly working to develop a common revenue recognition standard, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued their much-anticipated converged standard on revenue recognition. FASB issued Accounting Standards Update (ASU) No. 2014-09 and the IASB issued International Financial Reporting Standard (IFRS) 15, both titled, Revenue from Contracts with Customers. With only some minor differences, the FASB and IASB guidance represent a single, global, principles-based revenue recognition model. As a nonprofit organization, or someone who services the nonprofit community, you may be wondering how these rules will affect you.

First, it is important to point out that these new rules are solely for contracts. Accordingly, the new rules are not expected to change the accounting for pledges receivable, most contributions, split interest agreements, financial instruments, etc. This new set of rules will primarily apply to what are known as exchange transactions in nonprofit accounting.

Exchange transactions are reciprocal transfers between two parties; one of the parties acquires assets or services, or satisfies liabilities, by giving up other assets or services, or incurring other obligations to the other party. For nonprofit organizations, exchange transactions that give rise to revenues typically involve an organization's efforts to provide specified benefits (goods or services) to its members, clients, customers, or other beneficiaries for a fee. Exchange transactions that give rise to expenses or assets generally relate to purchases of goods or services for the organization's activities.

The core principle of this new guidance is that revenue should be recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The steps to apply this core principle are:

1. Identify the contract
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price to performance obligations
5. Recognize revenue when each performance obligation is satisfied

In general, it is expected that nonprofits affected will be those organizations that have typical fee-for-service transactions, contracts with customers, sponsorships, conferences, memberships, tuition relationships, licensing, royalty/affinity agreements, federal and state grants and contracts, and other exchange transactions throughout the year.

In August, 2015, the FASB Board issued an ASU that deferred the effective date of this new revenue recognition standard by one year. This ASU will require public organizations, including nonprofits who meet the criteria to be considered public entities, to apply the new revenue standard to annual reporting periods beginning after December 15, 2017. Nonpublic organizations (such as nonprofits) will apply the new revenue standard to annual reporting periods beginning after December 15, 2018. As a result, June 30, 2020 would be the first fiscal year affected for a typical June fiscal year-end nonprofit.

The extent of the impact on an entity will differ depending on various factors such as the transaction, its complexity, and the industry in which the entity operates. In some cases, there may be no change to the amount and timing of revenue recognition. In other cases, there will be changes, and those changes could be significant. As the implementation date approaches, organizations need to take steps to evaluate the impact of the new guidance on its operations. The AICPA is currently developing various industry-specific guidance for release, which will assist organizations in implementation of this new standard. The nonprofit industry guide is expected to be released no later than the first quarter of 2016.

There is much more to come on these new requirements, and more application information specific to non-profit organizations is expected to be released as the implementation dates draw closer. We look forward to keeping you up to date on the latest developments as they unfold.

For questions or more information, please contact Michael Barloewen at mbarloewen@windes.com or toll free at **844.4WINDES** (844.494.6337).

Michael Barloewen, CPA, CGMA
Partner

IRS Announces 2016 Limits for Qualified Plans and IRAs

The IRS has announced that the dollar limits for contributions and benefits shall not increase for the 2016 year. All of the limits, including for Social Security benefits, will be unchanged from the 2015 levels. The IRS determined that the cost-of-living index was insufficient to adjust any of the limits for next year.

We have prepared an updated historical chart summarizing the key limits, which can be found at our website, or you may click here to view the chart.

Exempt Organizations: 2016 Key Areas of Focus

The IRS released its Tax Exempt and Government Entities (TE/GE) Priorities for FY2016. These priorities highlight specific compliance projects the IRS has prioritized during the twelve-month period from July 2015 through June 2016. The three main takeaways are:

1. The IRS will continue to develop its data-driven decision-making process by identifying areas or issues that may be of greater risk of non-compliance.
    a. Through this data-driven process, the IRS will focus on:
        i. exemption issues such as non-exempt activities and private inurement,
        ii. protection of assets by identifying self-dealing and excess benefit transactions,
        iii. identifying employment tax and unrelated business income tax liabilities, and
        iv. other issues pertaining to non-exempt charitable trusts and hospitals (Section 501(r)).
2. Develop a pilot process to analyze data from 1023-EZ applications for trends and patterns, including post-determination compliance enforcement of organizations that were granted tax-exempt status through the streamlined determination process.
3. Use change rate data and statistical sampling in Tax Exempt Bonds to identify market segments with a higher risk of non-compliance.

Windes will announce releases and other developments pertaining to these priorities during the year.

If you have questions regarding your organization's activities in connection with any of the topics discussed above, please contact Chérie Williams at cwilliams@windes.com or toll free at **844.4WINDES** (844.494.6337).

Chérie Williams
Tax Senior

403(b) Plans: IRS Announces 2016 Priorities

In addition to the exempt organization priorities detailed in the previous article, the IRS also included its area of focus for next year related to 403(b) plans. Since the issuance of regulations governing 403(b) plans in 2007, retirement plans of tax-exempt entities have been provided deferential treatment by IRS examiners. The IRS goal is to equalize the regulation of these plans with 401(k) programs. In the clearest signal to date that the transition to equal treatment is nearly complete, the tax-exempt branch of the IRS has announced that part of its 2016 examination priorities will be on 403(b) and Section 457(b) plans.

The TE/GE priority guideline for 2016 notes that these plans “have been selected for increased attention because they have a historical pattern of non-compliance.” The guidelines further note that the IRS will provide its employees with specialized training for examinations throughout 2016.

Also promised in the guidelines is the expanded use of “compliance checks” by the Employee Plans Compliance Unit (EPCU). The EPCU sends these less formal communications to plan sponsors identifying potential issues that may need correction through the IRS voluntary compliance program. While not as ominous as a letter announcing a full examination of a plan or return, a compliance check requires a response, and the issues identified in the letter should be corrected voluntarily (either through an IRS submission or self-correction, if applicable). Ignoring a compliance check may lead to a full audit, where the lower sanctions under the voluntary correction program may not be available. Please contact us for a review of any correspondence received from the IRS.

For more information or questions, please contact Richard Green at rgreen@windes.com or by phone at **844.4WINDES** (844.494.6337).

Richard Green, CPC, APA
Partner

Windes is a recognized leader in the field of accounting, assurance, tax, and business consulting services. Our goal is to exceed your expectations by providing timely, high-quality, and personalized service that is directed at improving your bottom-line results. Quality and value-added solutions from your accounting firm are essential steps toward success in today's marketplace. You can depend on Windes to deliver exceptional client service in each engagement. Since 1926, we have gone beyond traditional services to provide proactive solutions and the highest level of capabilities and experience.

The Windes team approach allows you to benefit from a wealth of technical expertise and extensive resources. We service a broad range of clients, from high-net-worth individuals and nonprofit organizations to privately held businesses and publicly traded companies. We act as business advisors, working with you to set strategies, maximize efficiencies, minimize taxes, and elevate your business to the next level.

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