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What we can do together

Heinfeld, Meech & Co., P.C. is an Arizona based CPA firm who specializes in nonprofit accounting and auditing.

Nationally recognized in the "Best Small Companies to Work for in America" list, our core purpose is to be the best at everything we do. Since we opened our firm in 1986, providing quality service to clients has been our primary objective.

Our dedicated top-quality talent and substantial resources ensure that we stay abreast of emerging issues to serve our clients better. We remain dedicated to our Firm philosophy of "clients first."

Imagine What We Can Do Together is a quick-read digest of information that brings valuable news to you and your organization. If at any time you would like additional information, please contact us to discuss your questions.

For more about Heinfeld, Meech & Co., P.C., please visit our web site at www.heinfeldmeech.com.



HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Non-profit Tax Return (990) Changes

*By Heather Jones,
Consulting Manager*

It has been almost 30 years since the Form 990 has seen major changes; however starting with fiscal years beginning in 2008 or later, the Internal Revenue Service has completely revamped the information return. The form is going from a 9-page form with two Schedules to an 11-page form with 16 schedules, with a focus on all non-profits, not just a selected group.

The first page of the 990 has been changed to show a summary of your organization and the signature has been moved from the last page to the first page. In addition, a two-page checklist is used to determine which schedules are required and there is a two-page list of statements regarding other IRS filings and tax compliance. Although most of these are yes or no questions, Schedule O has been provided to include narrative on policies, changed operations, and no/yes answers.



There are four main areas that the Internal Revenue Service intends to uncover:

- Governance
- Family/Business Relationships
- Compensation
- Policies

The new form has required questions on each of these areas and space is provided for explanations to your answers. The purpose behind these changes is that the IRS is seeking transparency into the NPO, to monitor if the NPO is complying with their exempt purpose, and to reflect the current laws.

The new governance section will be required by every organization, and will ask questions regarding the independence of the governing board members and relationships with other board members, business relationships and compensation received by the organization. There is one entire schedule dedicated to this subject, and it will have questions on it designed to disclose all relationships.

Arizona allows non-profits to submit the Form 990 in place of the AZ-99, so the IRS has questions to address the State's needs, such as year of formation,

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990 Changes (Cont'd from page 1)

state of incorporation, organization's mission statement, and number of volunteers.

The new compensation section now includes higher salary amounts (from \$50,000 to \$100,000) for required disclosures on managers' salaries and independent contractors. Another change is that the compensation amounts need to match the W-2 forms submitted to Social Security at the calendar year end instead of your organization's fiscal year, which will facilitate the completion of this section. Schedule J is dedicated to Officers, Key Employees and Directors whose reportable compensation exceeds \$150,000 (including all benefits) and will pose questions to see if the individual meets the 1 out of 3 responsibilities test. This section also focuses on individuals who do not currently work at the organization but are receiving compensation over \$10,000.

In addition, the new Form 990 will include required questions regarding policies that may or may not be in place at your organization. Some of those questions are:

- Is there a written conflict of interest policy in place? If yes, explain.
- Is there a whistleblower policy?
- Is there written documentation for a retention and destruction policy?
- Do you have a compensation schedule and if so how is it reviewed and approved? Is it by an independent person?

Please note that these policies are not required by law so it is acceptable to reply that your organization does not currently have them. However you should be prepared to answer no on the questionnaire and provide an explanation.

The 2008 Form 990 re-design will be phased in over three years. Your organization's phase year is determined according to gross receipts or total assets. The timeframe is listed below:

<u>Year</u>	<u>Gross Receipts</u>	<u>Total Assets</u>
1	Over \$1 million	Over \$2.5 million
2	Over \$500,000	Over \$1.25 million
3	Over \$200,000	Over \$500,000


With so many changes underway, it is important to start preparation early so that your organization will know what to expect come tax time.

Questions? Contact 602-277-9449, ext 332 or heatherj@heinfeldmeech.com. 

New CPE Requirements for Arizona CPAs

The Arizona State Board of Accountancy recently approved changes to their CPE (Continuing Professional Education) requirements that will effect Certified Public Accountants registered in Arizona beginning with renewals in January 2009. These changes include:

- CPAs must complete 16 hours of live or interactive CPE within their reporting period. Examples of CPE types that would meet this requirement are delivered in a classroom environment or an interactive webinar.
- CPAs must complete 16 hours of technical CPE in each reporting period (e.g., accounting, auditing or taxation classes).
- **All CPAs including those in government, education and industry**, will be required to complete **80** hours. This change was made to adhere to current AICPA standards.

Please note that our firm's HMU workshops will help you meet these first two of these requirements (as they are delivered in a classroom setting and are technical training). In general, our workshops provide each attendee 6 hours of CPE. 

H&M University Workshops

Information on our workshops, including links to online registration, can be found at www.heinfeldmeech.com/hmu. (Online registration usually opens about 6-8 weeks before the event.)

Fair Labor Standards Act

Vail (Tucson area): Tues., March 24
Mesa (Phoenix area): Wed., March 25
Flagstaff: Thurs., March 26

Annual Non-Profit Conference

Mesa (Phoenix area): Friday, October 30

Best Practices in Payroll

Tucson metro area: Tues., Dec. 1, 2009
Mesa (Phoenix area): Wed., Dec. 2, 2009
Flagstaff: Thurs., Dec. 3, 2009

Importance of Tracking and Valuing Volunteer Services

By Jill A. Shaw, CPA, Partner

One of the most unique features of non-profit organizations is their frequent receipt of voluntary services. Because volunteers are so critical to the success of your organization, here are a few reasons why it is important to track the hours they spend working to help accomplish your organization's mission:

- It is essential to properly recognize and thank volunteers for the impact they make to your organization. Recognizing volunteers in your organization will let them know they are an important, vital part of your organization. This recognition will keep them involved, committed and active at the highest energy level.
- Tracking volunteer hours will provide valuable information that can be helpful when pursuing grants.
- When volunteer hours are tracked by type of function, the data will provide beneficial information to your organization as to where volunteers make the most impact, so that volunteers can be distributed by function where they are needed most.
- When a dollar value is assigned to volunteer hours, it can provide your organization with insight as to their significant financial impact.

While it is always a good idea to track volunteer hours for these reasons mentioned above, non-profit organizations are only required to record the value of contributed "volunteer" services on their financial statements for those types of services that meet the criteria of FASB Statement No. 116. Statement 116 requires that contributed services be recognized if either of the following criteria is met:

- ✓ The service provided by a volunteer either creates or enhances a nonfinancial asset (*nonfinancial assets include such things as buildings and equipment*).
- ✓ The service requires specialized skills; the service is provided by individuals with those skills; AND the services would typically need to be purchased if not provided by volunteer donation (*examples would include services provided by doctors, lawyers, accountants, teachers, carpenters, and other craftsmen, professionals, or skilled persons in their skilled capacity*).

Contributed services that do not meet either of these criteria are not permitted to be recognized in the financial statements; however, organizations are encouraged to disclose, as a footnote, the existence and value of unrecognized volunteer service time (unrecognized by accounting standards, not by the non-profit organization's standards!).

If you have volunteers that do meet either of these criteria, you must not only report their time, but the value of that contributed time. How do you value volunteer service? You should use the market value of those contributed services. Try to avoid using minimum or median wage as those figures undervalue most volunteer roles. The Bureau of Labor Statistics (www.bls.gov/bls/blswage.htm) does have hourly wages by occupation that can be used to determine the value of a specialized skill. In putting a value on volunteer jobs, you want that value to reflect what that service would cost if it was being purchased, either as a service or hourly wage. If you are basing your volunteer job value on a wage comparison, don't forget to include the costs beyond gross wages, such as fringe benefits. There are also websites such as Independent Sector (www.independentsector.org) that provide the estimated dollar value of volunteer time per hour, including fringe benefits. Sites such as this could be a helpful tool to value volunteer time for services not requiring specialized skills.

It is important to remember that when a doctor, lawyer, craftsman, or anyone with a specialized skill volunteers, the value of his or her work is based on the volunteer work performed, not his or her earning power. In other words, if a doctor is painting a fence or a lawyer is sorting groceries, he or she is not performing his or her specialized skill for the nonprofit, and the volunteer hour value would not be higher.

Positive community and organization relations promote a better understanding of the importance of your organization. It is important to inspire, motivate and perpetuate the good in all of us in our community. The documentation of volunteer contributions can be the good news that inspires the best in all of us. **ISM**

Puzzler

Decipher the hidden meaning: (Answer on p. 4)

DR. DR.

Are Audit Findings Good or Bad?

By Corey Arvizu, CPA, Partner

Your first instinct may be to emphatically answer that all audit findings are BAD! Once the initial reaction and emotions are set aside, the debate as to whether or not audit findings are good or bad may begin. Contrary to popular belief, auditors do not particularly enjoy identifying findings during the audit. Audit findings require a significant amount of additional work with respect to evaluation of the deficiency, performance of additional audit procedures, discussions with the client, and communicating the finding in a report. Aside from the additional amount of work that accompanies an audit finding, auditors are sympathetic to those they audit. It is difficult for auditors to tell someone they did something wrong or that an error was identified.

Management and staff often do their best to prevent audit findings. However, there should not be an expectation by the governing body, oversight agencies or any other interested party that there not be any audit findings. Internal controls have inherent limitations due to cost/benefit considerations. It is generally understood that the cost of implementing a control should not exceed the related benefits. Aside from actual financial costs to implement a control, other costs to an organization may be increased complexity, reduced productivity, and increased processing time. When findings do arise, it is important that management communicate this concept to those that may inquire as to the reported audit findings.

A valid response to an audit finding may in fact be that the risks associated with the finding are acceptable, and that the cost of implementing the corrective measure would exceed the related benefits. Management should evaluate each audit finding to determine if this may be a valid response. Most corrective measures do require resources, which are typically allocated or approved by the governing body in some manner; therefore management should be prepared to communicate the costs of corrective action so that the governing body can make informed decisions when evaluating the audit finding reported to them.

Can audit findings be good? Yes, they certainly can. A finding may assist management with obtaining the necessary resources to correct what may be known system deficiencies, lack of personnel, or insufficient training. In addition, numerous and consistent findings in a particular area are typically a sign of a problem that needs to be addressed. Often these problems will eventually turn into critical issues which gather the attention of oversight agencies even if an audit finding was not reported. The involvement of oversight agencies typically results in jeopardized funding and subjects the organization to extensive monitoring. Lastly, audit findings are an indication that the organization is in fact receiving value from the services being performed by the audit team.

On the surface all audit findings appear to be critical or negative, particularly due to the technical language used in findings. Discussions with the auditors can provide insight as the severity of the finding and how the error rate compares to other organizations of a similar size. In addition, due to their work with other organizations, auditors typically have a frame of reference to provide insight as to suggested procedures and best practices. In conclusion, a collaborative effort between management and the auditors can result in audit findings being a value-added product of the audit rather than a necessary evil. **H&M**

Accounting and Management Advisory Services

Our non-profit specialists can provide accounting and management advisory services to your organization. Services include:

- Monthly or weekly accounting services (including payroll, accounts payable, and financial statement preparation)
- Tax Return (990) Preparation
- Inservice Trainings for Your Personnel
- Procedural Reviews and Handbooks

For more information, contact Heather Jones at (602) 277-9449, ext 332 or heatherj@heinfeldmeech.com **H&M**

Answer to Puzzler (Page 3):
"A paradox"