

PUBLIC PERSPECTIVES

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A SEMIANNUAL NEWSLETTER
FROM ANDERSON ZURMUEHLEN & CO., P.C.

Health Care Bill Offers Tax Credit to Small Tax-Exempt Organizations

Does your tax-exempt organization pay all or a portion of your employees' health insurance costs? If so, you may be eligible for the small business health care tax credit—even though your organization doesn't generally pay taxes.

The small business health care tax credit was included in the Affordable Care Act signed by President Obama in March and is effective this year. The credit is designed to encourage small employers, including tax-exempt organizations, to offer health insurance coverage for the first time or to maintain coverage they already have in place.

How It Works

The credit is generally available to small employers that contribute an amount equal to at least half the cost of single coverage health insurance for their employees. The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ moderate- and lower-income workers. For tax-exempt employers, the credit is a refundable credit. This means that even if the employer has no taxable income, the employer may receive a refund.

For tax years 2010 to 2013, the maximum credit is 25 percent of premiums paid by eligible tax-exempt employers. The maximum credit for eligible small business employers is 35 percent.


Beginning in 2014, the maximum tax credit will go up to 35 percent of premiums paid by eligible tax-exempt organizations and 50 percent of premiums paid by eligible small business employers. This increase, however, will only last for two years, which means the credit may only be claimed for a total of six tax years (2010-2013, plus two consecutive tax years that begin after 2013). The maximum credit goes to smaller employers with 10 or fewer full-time equivalent (FTE) employees that pay annual average wages of \$25,000 or less.

Phase Out

The credit has a phase out provision. It's completely phased out for employers that have 25 FTEs or more and pay average wages of \$50,000 per year or more. Because the eligibility rules are based in part on the number of FTEs and not simply the number of employees, businesses that use part-time help may qualify even if they employ more than 25 individuals.

How to Claim the Credit

Tax-exempt organizations will claim the small business health care tax credit on a revised Form 990-T. Form 990-T is currently used by tax-exempt organizations to report and pay tax on unrelated business income. The form will be revised for the 2011 filing season to enable tax-exempt organizations (even those that do not owe tax on unrelated business income) to claim the credit. The new Form 8941 will be used to calculate the credit and this amount will carry to the Form 990-T.

Please contact your advisor at Anderson ZurMuehlen for more information on this credit. 

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Internal Controls at Offsite Locations

Recently, you may have noticed in the newspaper or on the news an unsettling trend developing across the United States: employee theft. Employee theft can occur in large organizations with well-established internal controls or in small businesses with minimal controls. Sadly, small non-profits and local governments with offsite locations seem to be the most susceptible to insider thievery. Supervisors at offsite locations shouldn't be discouraged, however; a few key controls can greatly reduce the risk of theft.

The most important and effective control you can implement is separating responsibilities for collecting, recording, depositing, and reconciling cash receipts. If these controls are properly established, they can provide a strong defense against the mishandling of cash. Unfortunately, small non-profits and local governments typically don't have enough employees to effectively separate all of the duties surrounding the receipt of cash.



Below are a few suggestions that smaller non-profits and local governments should consider when evaluating the effectiveness of their controls over cash at offsite locations:

- Require proper staffing during collection times. The most effective way to prevent theft is to segregate the duties of counting the cash and recording the deposit. For example, two employees should always be involved in closing the cash register. One employee should count the cash, while the other records the amount on the deposit slip.
- Receipts should be recorded in duplicate form for all transactions. One copy should be provided to the payer; the other should be sent with the deposit report to the accounting office.
- A receipt log should be maintained that includes the receipt number, date received, name of payer, amount of payment, and type of payment (cash, check, or credit card).
- Cash should be deposited every day (or as often as circumstances allow) by a trusted employee. The deposit slip should then be reconciled to the cash receipt log by an employee other than the one who made the deposit.
- Bank reconciliations should be prepared by an employee independent of the cash collection and deposit process. In addition, bank reconciliations should be reviewed and approved by a supervisor monthly. The supervisor should verify that the balance on the reconciliation agrees with the balance on the general ledger.
- Once a year, management or a third party should perform an unannounced cash count at the offsite location.

Given the recent trend toward employee theft during the economic downturn, it's vital for non-profit organizations and local governments with offsite locations to focus on the controls mentioned above. When employees are aware that management is reviewing their work, they're far less likely to commit fraudulent acts.

These suggestions may not be applicable to every organization's situation. They can, of course, be modified to accommodate and supplement existing controls. It's important to continually improve internal controls, as they're the first line of defense in protecting the organization, its assets, and its employees. 📌

Nonprofit Business Models: Time for a Fresh Look?

In her keynote address at the 2010 Montana Nonprofit Association Conference, *Nonprofit Quarterly* editor in chief Ruth McCambridge suggested that the time may have come for nonprofits to re-think their business models. Failure to adapt fast enough to a changing economy, she warned, could easily produce disastrous consequences for many struggling organizations.

According to McCambridge, one of the biggest issues facing nonprofits is the financial health of state governments. Many nonprofits depend heavily upon public money for support; when states cut their budgets to meet revenue shortfalls, nonprofit funding is usually reduced. With decreased funding for nonprofits in our post-recession economy, philanthropy has assumed a much larger role in public systems.

According to McCambridge, one of the biggest issues facing nonprofits is the financial health of state governments.

Given the concerns raised by McCambridge and others, nonprofit executive directors and boards should seriously consider whether their current business model is still appropriate. In its Spring 2009 issue, the *Stanford Social Innovation Review* published an article entitled, “Ten Nonprofit Funding Models.” This article is an excellent resource for becoming more familiar with the wide variety of business models utilized by nonprofits across the nation. Below is a brief description of each model.

Heartfelt Connector: Creating a structured way for people to connect, this model focuses on causes that resonate with the concerns of large numbers of people at all income levels.

Beneficiary Building: This model provides services to specific individuals and then relies on the same benefited people for additional donations.

Member Motivator: Used extensively by churches and other membership groups, this model develops a membership base and then relies upon these individuals for donations.

Big Bettor: This model relies on major grants from a few individuals or foundations. Often, the primary donor is a founder who is personally connected to the issue.

Public Provider: This model works with government agencies to provide essential social services that the government has previously defined and allocated funding for.

Policy Innovator: Although still dependent on government money, nonprofits utilizing this model have developed novel methods to address social issues. They have convinced government to support these alternative methods by presenting their solutions as more effective and less expensive than existing programs.

Beneficiary Broker: Under this model, nonprofits compete with one another to provide government-funded or government-backed services to beneficiaries. Beneficiaries are free to choose the nonprofit from which they will get the service.

Resource Recycler: With this model, nonprofits grow largely by collecting in-kind donations from corporations and individuals. They then redistribute these donations to the beneficiaries.

Market Maker: Nonprofits using this model provide a service that straddles an altruistic donor and payer motivated by market forces.

Localized Nationalizer: This model describes nonprofits that have grown by creating a national network of locally based operations.

It's important to remember that particular models fit certain causes better than others. Understanding each of these models will help executive directors and boards to make informed, wise, and potentially far-reaching decisions as they re-examine their current business models. ■

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Peer Review Reports: What They Are, What They Mean

When you receive an engagement letter from your CPA firm, you may find a Peer Review Report attached to it. For some types of engagements—such as audits conducted in accordance with government auditing standards (which includes single audits of non-profits)—providing a Peer Review Report is mandatory. You may well ask, “What is this report, and why is it so important?”

A peer review is a review of the work of one CPA or CPA firm by another CPA or CPA firm. The purpose of peer review is to ensure that quality controls are being applied in conformity with rigorous standards set by the American Institute of Certified Public Accountants (AICPA). Mandatory peer review applies to a CPA firm’s accounting and auditing services but not to its tax and management advisory work.



are examined. In addition, documentation of the firm’s compliance with AICPA membership requirements is inspected. At the completion of the peer review, the reviewer discusses the findings with the reviewed CPA firm and issues a report.

Three types of reports may be issued: “pass,” “pass with deficiencies,” and “fail.” A “pass” report indicates the firm has a clean system of quality controls for its auditing and accounting practice. “Pass with deficiencies” means more than one finding was documented in the review. “Fail” means the review contains significant find-ings. Sanctions may be imposed on deficient CPA firms. Those sanctions may include requirements for continuing professional education (CPE) training, censures and reprimands, fines, and suspension from membership.

The peer review process includes a careful examination of the firm’s working papers and procedures. When appraising the firm’s quality control policies and procedures, each organizational or functional level within the firm is reviewed and selected engagement working paper files and reports

When reviewing proposals for audit and accounting services, be sure to request and read the proposing firm’s Peer Review Report. This will give you vital information on the quality of the firm’s work and the systems that are in place to ensure that the firm is meeting professional standards. 