



Louisiana Legislative Auditor Audit Risk Alert

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AUDIT RISK ALERT # 14

DATE: February 6, 2019 (updated October 13, 2021)

SUBJECT: Changes in reporting for nonprofit organizations; improper payment of sales and use taxes by local government agencies

The purpose of this audit risk alert is to advise CPAs on the Louisiana Legislative Auditor's (LLA's) approved list of matters with respect to nonprofit reporting; and payment of sales and use taxes by local government agencies.

Changes in reporting for nonprofit organizations

Nonprofit organizations in Louisiana that receive or expend local and/or state assistance are defined in Louisiana Revised Statute (R.S.) 24:513 A. (1) (b) (iv) as quasi-public agencies. Additional information on quasi-public agencies may be found in section [200-1110](#) of the *Louisiana Governmental Audit Guide*. Quasi-public agencies are required to provide an annual financial report to the Louisiana Legislative Auditor (LLA).

In August 2016, the Financial Accounting Standards Board (FASB) issued [Accounting Standards Update \(ASU\) No. 2016-14, Not-for-Profit Entities \(Topic 958\); Presentation of Financial Statements of Not-for-Profit Entities, An Amendment of the FASB Accounting Standards Codification](#). This amendment makes significant changes to the required financial statement presentation and accompanying disclosures for nonprofit organizations.

In summary, ASU 2016-14:

- Reduces the required classes of net assets from three (permanently restricted, temporarily restricted, and unrestricted) to two (net assets with donor restrictions and net assets without donor restrictions).
- Requires all nonprofit organizations to provide information about expenses by both their natural classification (e.g., salaries, rent, depreciation) and functional classification (program services and supporting services). Before the implementation of ASU 2016-14, only voluntary health and welfare organizations were required to provide this type of information in their financial statements.
- Enacts other financial statement presentation and note disclosure changes. Some of these changes simplify the information nonprofits present in their financial statements; other changes enhance this information.

The new guidance is effective for annual financial statements issued for fiscal years beginning after December 15, 2017; and for interim periods within fiscal years beginning after December 15, 2018. In other words, **nonprofit organizations are required to adopt the provisions of ASU 2016-14 for their fiscal years ending on or after December 31, 2018.**

CPAs who planning to perform an audit of a nonprofit agency **with a fiscal year end of December 31, 2018 or later** should be familiarizing themselves now with the changes brought about by ASU 2016-14; and should be discussing these changes with their nonprofit clients to ensure that they understand and comply with the new reporting requirements.

Louisiana Governmental Audit Guide modules [300-1040](#); [300-1060](#), and [500-1090](#) have been updated to reflect the changes brought about by ASU 2016-14.

Improper payment of sales and use taxes by local government agencies

Louisiana Revised Statute (R.S.) 47:301 pertains to sales and use taxes and the persons who are required to pay them. R.S. 47:301(8) (c) (i) states:

For purposes of the payment of the state sales and use taxes and the sales and use tax levied by any political subdivision, "person" shall not include this state, any parish, city and parish, municipality, district, or other political subdivision thereof, or any agency, board, commission, or instrumentality of this state or its political subdivisions.

Periodically, Legislative Auditor staff members are advised that a local government agency in Louisiana has been paying sales tax on its purchases. This is an improper and unnecessary use of public funds. With the average combined state and local sales tax rate in Louisiana at 9.14%, and exceeding 10% in some parts of the state; local governments that routinely pay sales taxes are not practicing good financial stewardship with respect to the public funds they receive.

Please discuss the payment of sales and use taxes with your local government clients and ensure that they are aware of and are following the sales tax exemption law. Local government agencies may not be aware that they may request a sales tax exemption identification number from the Louisiana Department of Revenue that may be used by the local government's employees when making purchases on behalf of the agency.

If you have any questions about this audit risk alert, please contact Diane Allison at dallison@lla.la.gov or (225) 339-3812, or Gayle Fransen at gfransen@lla.la.gov or (225) 339-3874.