



How successful not-for-profits avoid common accounting and tax pitfalls

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Webinar starts at noon CT



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Presented by
AGH



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Ellen Decker

Manager
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Ellen, a certified public accountant, has multiple years of experience working with non-profits and private sector entities with expertise in tax compliance and planning services. Ellen is a member of the American Institute of CPAs and Kansas Society of CPAs.



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Jandrea serves clients with a broad range of accounting and consulting services including monthly financial close-out, assistance during peak workloads or special projects, training new accounting personnel, internal control reviews, and assistance with departmentalizing financials and cost allocations.



Today's topics

- Best Practices
- Operational Effectiveness
- Internal Controls
- Keeping the Books and more...
- GAAP Financial Statements VS Form 990
- Protecting Tax-Exempt Status
- Unrelated Business Income Tax (UBIT)
- Gambling Activities

POLLING QUESTION #1

Please answer for continuing education credit

Best practices for not-for-profits

Board of
directors

Employees

Internal
control

Accounting



Start at the top



Board of directors

- Can have personal liability
- Recruiting members
- Need to make sure they are “bought in” to the not-for-profit purpose
- Have regular meetings – no less than once a quarter
- Have active committees (finance, programs, etc.)
- Create board policies and review annually
- Watch for conflicts of interest



Day to day – Operational effectiveness



Employees

- Hire qualified individuals
- Make sure they are screened
- Organizational chart
 - Who reports to the Board? Multiple people or just the Executive Director?
- Need buy in to the not-for-profit purpose



Policies and procedures

- Documented
- Have back ups

Keep things safe – internal control

Segregation of duties

- Regardless of size
- Use the board of directors to enhance
- Outsource 😊

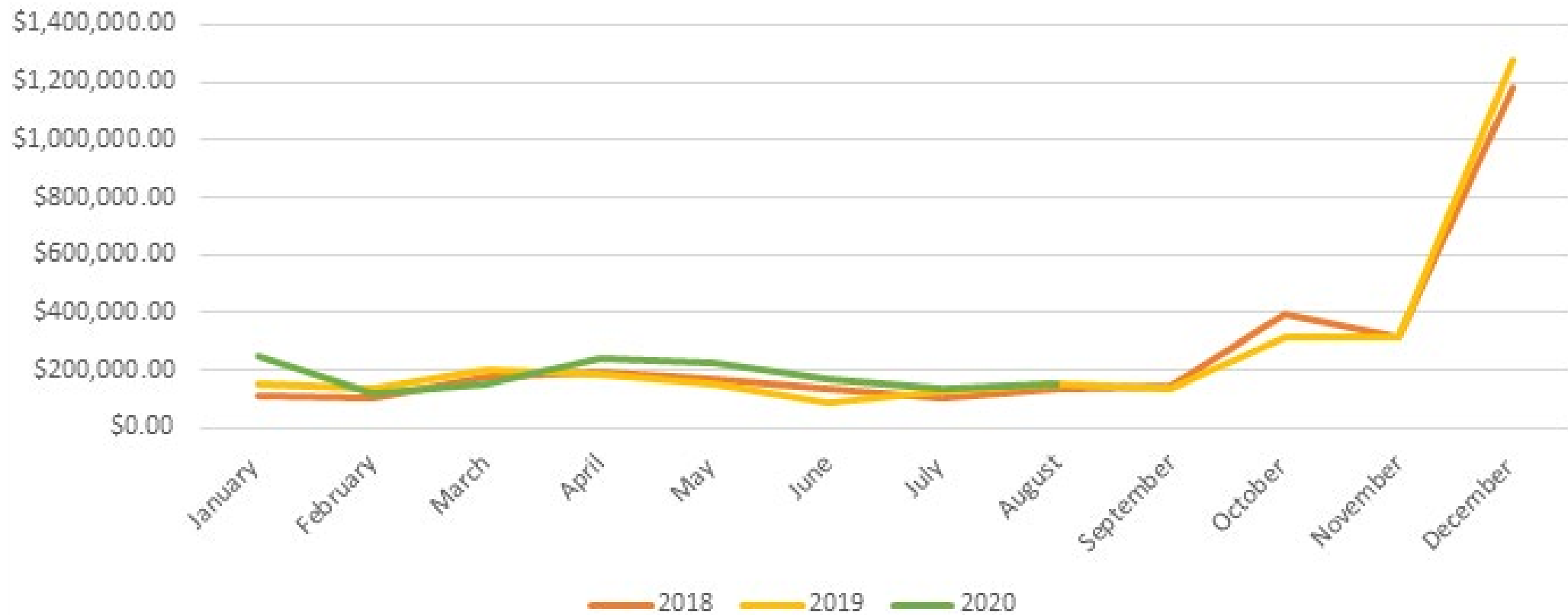
Controls over technology

- Backups maintained
- Security over log-ins
- Firewalls, virus detection software
- Training for all staff regarding phishing, email security

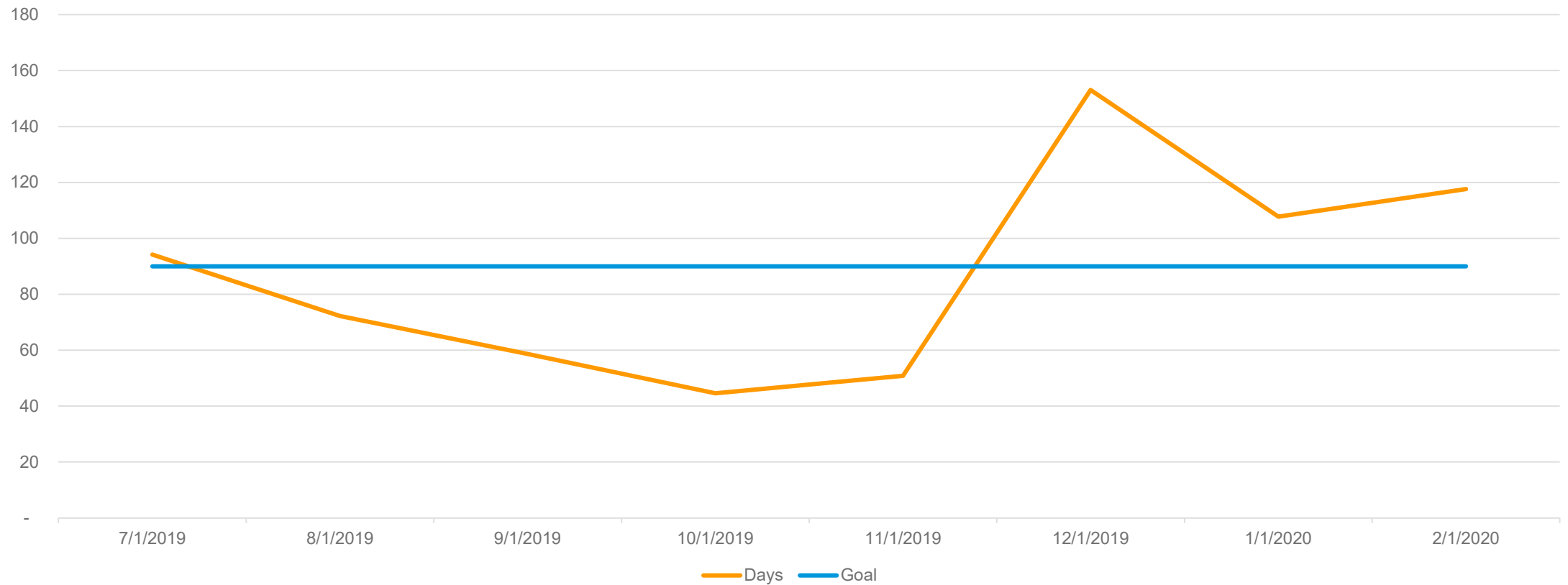
Review month-end financials

- Department heads
- Executive director
- Finance committee
- Board of directors
- Against budget by month and year to date
- Trend reports or rolling 12 months
- Analytics -- # of people service, cost to serve one person / activity
- Fundraising events reports

Donations



Days Reserves in Cash and Investments





Keeping the books and more – Accounting



Decision making

- What programs are working / effective
- Use in grant applications
 - Where do we need the money / good program
- Fundraising
 - Sponsor a child / meal / person for \$25

Tax exempt

- Purchases – have exemption certificate!!!
- Real estate
- Personal property – vehicles



Keeping the books and more – Accounting

What to keep for tax purposes

- Need to send receipts over \$250 in donations
- Still need to file 1099s, collected W-9 forms
- Watch for UBIT
 - Need to account for this separately

Payroll

- 501(c)3 are exempt from federal unemployment taxes
- Exempt from Kansas unemployment taxes if fewer than four employees

Charging sales tax – still have to do this (in Kansas anyway)

POLLING QUESTION #2

Please answer for continuing education credit

GAAP financial statements VS Form 990

Item	GAAP	Form 990
Donated Services	Treated as a Contribution and an Expense	Excluded from revenue and expense *Shown on Schedule D as applicable
Unrealized Gains and Losses	Gain/(Loss) is reported on Statement of Activities	Excluded from revenue *Shown on Schedule D as applicable
Fundraising Activity	Income and Expenses are reported on Statement of Activities	Expenses are reported on statement of revenue-netting with fundraising income



501(c)(3) tax exempt status – Protect it



- Fulfill your annual reporting obligation
- Operate within your stated exempt purpose
- Monitor and limit Unrelated Business Income (UBI)
- Avoid political activity
 - 501(c)(3) entities are prohibited from participating in any political campaign on behalf of or against a candidate.
- Keep lobbying activity to a minimum
 - Must remain an insubstantial part of overall activity
- Ensure activity does not create private benefit/inurement



Annual reporting requirement

Status	Form Required	Due Date: Calendar Year End	Due Date: June 30 Year End
Gross receipts normally \$50,000 or less	990-N (Electronic only)	May 15	November 15
Gross receipts less than \$200,000, and total assets under \$500,000	990-EZ or 990	May 15 Six Month Extension Available	November 15 Six Month Extension Available
Gross receipts equal to or over \$200,000 OR assets equal to or over \$500,000	990		
Private Foundations	990-PF		

Federal exemption is revoked automatically if an entity does not submit the required annual return for three consecutive years

Penalty – Late filing

Entities with \$1,067,000 or less of gross receipts

- \$20 per day penalty if not filed by the due date
 - OR extended due date if an extension was granted
- Maximum penalty is \$10,500 or 5% of gross receipts (whichever is lower)

Entities with over \$1,067,000 of gross receipts

- \$105 per day penalty if not filed by the due date
 - OR extended due date if an extension was granted
- Maximum penalty is \$53,000

****Late filing penalties can often be abated by preparing and submitting a reasonable cause penalty abatement letter****



Incomplete return (990)

Common missing or incomplete items

- Schedule A...Public charity status and Public Support
 - All 501(c)(3) entities must fully complete and file
- Schedule B...Schedule of Contributors
 - All organizations must complete unless Part IV, line 2 is answered "NO"
- Schedule O...*Open* Schedule
 - Provides IRS narrative information on various questions and is required for all entities

Common incomplete or unanswered items

- Response to Part VI, Line 11b regarding the preparation and review process for the Form 990
- Response to Part VI, Line 19 regarding if/how the governing documents were made available to the public
- Missing authorized signature

POLLING QUESTION #3

Please answer for continuing education credit

Unrelated Business Income (UBI)

General Rule:

An activity is an unrelated business if it meets three requirements...

1. It is a trade or business
2. It is regularly carried on
3. It is not substantially related to the furthering the exempt purpose of the organization

The IRS focuses on how the unrelated income was earned not in how it was used. Even if the income from an activity is used to further the exempt purposes it may be subject to tax.



Unrelated Business Income



- Not-for-profits are permitted to engage in some income-producing activity that is unrelated to their exempt purpose
- Not-for-profit entities could lose their exemption if unrelated business income accounts for a **significant** portion of the total income earned
 - There is no defined threshold for what percentage qualifies as “significant” to the IRS
- There are defined exceptions and activities that are excluded from UBI rules



Where to look for UBI



Investments



Cell phone
towers



Services
performed



Shops



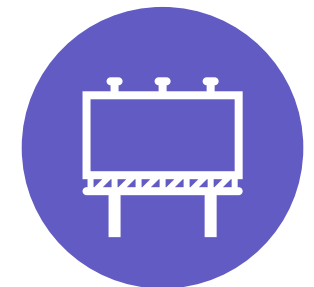
Bookstore



Property
Rentals



Facilities



Advertising



Charitable gaming activities

- Permitted by **most** states, but often require registration with the state or local authority
 - Kansas application for gaming license is located at www.ksrevenue.org
- Silent and live auctions are not considered gaming activities by the IRS
- If conducting a raffle...consider having an attorney draft raffle rules



Charitable gaming activities: Reporting



- Income and expenses need to be tracked and reported separately
- Cash and non-cash prizes may require filing of Form W-2G and may require taxes to be withheld
- Carrying on gambling activity without a permit or license is considered illegal activity subject to UBIT
- Disclose on materials (raffle tickets, etc.) that the amounts paid are not deductible as contributions

POLLING QUESTION #4

Please answer for continuing education credit



A few closing reminders



- Create Board policies and procedures and review them annually
- Have quality hiring practices in place
- Evaluate current segregation of duties and resolve any deficiencies
- Regularly review month-end financials
- Regularly review requirements for maintaining tax-exempt status and ensure you are timely filing all required forms
- Evaluate current and new business activities for UBIT exposure and required reporting

Thank you for attending

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