



Crime Stoppers Financial Compliance – Tax & Accounting Aspects of Larger Rewards

Presented by:

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Topics

- Types of Rewards/Donations
- Accounting for Rewards/Donations
- IRS History
- IRS Reporting/Compliance
- Banking Requirements
- Internal Controls
- Other?

Types of Rewards/Donations

Reward Provided by Outside Interest

- In addition to CS reward, an outside interest pays an informant directly
- Get commitment in writing!
 - Memorandum of Understanding

Reward Committed

- An amount is committed by an outside interest through a memorandum of understanding for donation
 - Set a time frame for resolution
- What if no arrest or reward required?
 - Seek a donation to general operations of CS organization
 - Otherwise, obligation expires

Reward Provided by Donation

- At outset of announcement, a donation is paid to the organization for the size of the larger reward
- Set a time frame for ultimate resolution of solving case and payment of reward
- If case not solved and reward unpaid:
 - Determine the status of the funds following expiration of time
 - Seek having funds donated to general operations

Accounting for Rewards/Donations

Larger Reward Paid by Outside Interest

- CS organization follows normal reward payout practices
 - Expense reward when reward disbursed for CS portion
 - Code number shared with outside interest to ascertain anonymous tipster
 - Anonymous tipster makes decision to accept additional reward benefit at risk of potentially forfeiting anonymity
 - Follow up with outside interest to ensure reward paid
 - Integrity of CS name

Donation Commitments for Larger Rewards

- Dependent upon donation only provided by solving case:
 - Cash basis: Donation recorded when cash received; expense reward when reward disbursed
 - Accrual basis: Record pledge receivable if CS organization receives larger reward funds as donation irrespective of solving of case; expense reward when disbursed.
 - If no donation committed, footnote to financial statements may be required.

Donations for Larger Rewards

- Determined based on type of agreement established & basis of accounting
 - Cash basis: Donation recorded when cash received; expense reward when disbursed
 - Accrual basis and amount returned to donor if not solved:
 - Record amount as deferred revenue
 - Accrual basis and amount retained by CS if not solved:
 - Record pledge receivable if CS organization receives larger reward funds irrespective of solving of case, record as donation after expiration of time agreement; expense reward when disbursed

Financial Statement Considerations

- Memorandum of agreements should be reviewed and appropriate footnote documentation may be included describing the related transaction and any potential contingent liability, if necessary.

IRS Reporting Compliance Areas

IRS History

- IRS requirement: Payments made to individuals or businesses during a calendar year in excess of \$600 may need to be reported to IRS on a Form 1099
- No private letter ruling ever provided for \$1,000 rewards
- Generally accepted that Crime Stoppers reward payments up to \$1,000 didn't need to be reported

Form 1099

- In 1988, and re-affirmed in 2006, IRS Form 1099 documentation revised with respect to reward payments made to informants.
- Current instructions in Form 1099 – Misc. Instructions:
 - ***Fees paid to informers.*** A payment to an informer as an award, fee, or reward for information about criminal activity does not have to be reported if the payment is made by a federal, state, or local government agency, or by a nonprofit organization exempt from tax under section 501(c)(3) that makes the payment to further the charitable purpose of lessening the burdens of government.

Form 990 & Form 990 EZ

- Contribution threshold:
 - Any contributor providing a donation of \$5,000 or more in any one fiscal year
- Schedule B for Form 990 or Form 990 EZ must be completed
- Does not have to be provided through information requests from public to see exemption and tax return documents

Banking Requirements

Patriot Act

- US responds to 9-11 attacks and other terrorist threats through USA Patriot Act, Title III, Anti Money Laundering to Prevent Terrorism
- Banks must acquire personal information for any currency transaction exceeding \$10,000
- This would include anonymous informants
- Catch-22 with IRS regulations

Internal Controls

Risk Assessment

- Internal risks
 - Access to funds
 - Receiving adequate financial information
- External risks
 - External contract/ – access to information, confidentiality
 - Protecting tip code numbers
- Control activities
 - Development of checklists, policies and procedures establishing appropriate controls over organizational activities

Internal Controls

- Controls over cash receipts
- Controls over cash disbursements
- Segregation of duties

Summary

- Types of Rewards/Donations
- Accounting for Rewards/Donations
- IRS History
- IRS Reporting/Compliance
- Banking Requirements
- Internal Controls



? Questions ?

Copy of this Presentation?

- A copy of this presentation is included on the Larger Rewards CD available during this conference.

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