



WHO IS WATCHING YOUR POT OF GOLD? FINANCIAL COMPLIANCE



Presented by:

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Paragon Solutions Consulting

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TODAY'S FINANCIAL COMPLIANCE TOPICS

- Basic Review of Tax Exempt Charitable 501(c)(3) organizations
- IRS Reporting Requirements
- State Reporting Requirements
- Donations – Fundamentals
- Sponsorship – Fundamentals
- Gaming – Fundraising
- New Accounting Rule – Revenue Recognition
- Internal Controls
- ?Questions?

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- IRS Reporting Requirements
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- Internal Controls
- Sarbanes Oxley
- ?Questions?



“I’m just waiting to see what you’re making,
so I can write some regulations for it.”

**FIRST, SOME
COMPLIANCE
HUMOR...**



BASIC REVIEW OF TAX EXEMPT CHARITABLE 501(C)(3) ORGANIZATIONS

TAX EXEMPT ORGANIZATIONS

- Focus on 501(c)(3) Public Charities of the Internal Revenue Code.
- Federal tax law provides tax benefits to nonprofit organizations.
 - No corporate income tax
 - Tax deductible donations
- In return, the Code requires tax exempt organizations comply with federal tax law maintaining tax exempt status and avoid penalties.

TAX EXEMPT ORGANIZATIONS

- Compliance activities potentially jeopardizing a public charities tax-exempt status:
 - Reporting Requirements
 - Record-keeping
 - Disclosure Requirements
 - Avoid Influencing legislation
 - Not operated for private purpose



INTERNAL REVENUE SERVICE – ANNUAL REPORTING REQUIREMENTS

Which forms do exempt organizations file?

Most tax-exempt organizations are required to file an annual return. Which form an organization must file generally depends on its financial activity, as indicated in the chart below.

Status	Form to File
Gross receipts normally \leq \$50,000 Note: Organizations eligible to file the <i>e-Postcard</i> may choose to file a full return	<u>990-N</u>
Gross receipts $<$ \$200,000, and Total assets $<$ \$500,000	<u>990-EZ</u> or <u>990</u>
Gross receipts \geq \$200,000, or Total assets \geq \$500,000	<u>990</u>
Private foundation - regardless of financial status	<u>990-PF</u>

WHEN IS THE ANNUAL FORM 990 SERIES RETURN DUE DATE?

ANNUAL RETURN DUE DATE

- Form 990, Form 990-EZ, Form 990 T & Form 990-N is due on the 15th of the fifth month following fiscal year end
- Recently added:
 - Form 8868 updated to provide for automatic six-month extension for Form 990, Form 990-EZ & 990T
 - Form 8868 Application for Automatic Extension must be filed on or before original due date
- No Extension allowed for Form 990-N
 - However, there is no penalty for late filing
- So when is your return due?

Return Due Dates for Exempt Organizations: Annual Return

Use the table below to find your due date of annual returns (Form 990, 990 EZ, 990-PF) that a tax exempt organization must file.

Ending date of tax year	Initial return due date	Auto 6-month extension due date
December 31	May 15	November 15
November 30	April 15	October 15
October 31	March 15	September 15
September 30	February 15	August 15
August 31	January 15	July 15
July 31	December 15	June 15
June 30	November 15	May 15
May 31	October 15	April 15
April 30	September 15	March 15
March 31	August 15	February 15
February 28/29	July 15	January 15
January 31	June 15	December 15

SUBMITTING FORM 990-N (E-POSTCARD)

Are you eligible to submit Form 990-N (e-Postcard)?

1. Register for your account
2. Review the submission guidance
3. Gather the information needed

[Go to IRS.GOV website](https://www.irs.gov)




Organization Details

Electronic Notice-Form 990-N (e-Postcard)

Organization Information

For the tax year ending

December 31, 2020 

Has your organization terminated or gone out of business?

No  

Are your gross receipts normally \$50,000 or less?

Yes  

Organization's legal name -Line 1

BATTLE OF THE BADGES INC 

Organization's legal name -Line 2



Employer Identification Number (EIN)

320565228 

PREVIOUS

CANCEL FILING

CONTINUE

Contact Information

[Home](#) | [Security Profile](#) | [Logout](#)



Electronic Notice-Form 990-N (e-Postcard)

Organization Address and Principal Officer Information

Organization's legal name:

If your organization conducts business using another name (DBA), enter other name:

* = required field

Organization:

DBA Name



DBA Name - continued



Number and Street (or PO Box)*

2310 S GREEN BAY RD, SUITE C PMB 18



City or Town*

RACINE



State*

WI - Wisconsin



Zip Code*

53406



Organization's website address, if applicable



Principal Officer:

Type of Name*

Person



Person Name*

JAMES KELLEY, Pres





Confirmation

[Home](#) | [Security Profile](#) | [Logout](#)

Your Form 990-N(e-Postcard) has been submitted to the IRS

- **Organization Name:** BATTLE OF THE BADGES INC
- **EIN:** 320565228
- **Tax Year:** 2020
- **Tax Year Start Date:** 01-01-2020
- **Tax Year End Date:** 12-31-2020
- **Submission ID:** 10065520211014502775
- **Filing Status Date:** 04-11-2021
- **Filing Status:** Pending

**Keep this form as proof of
filing with the IRS**

Note: Print a copy of this filing for your records. Once you leave this page, you will not be able to do so.

MANAGE FORM 990-N SUBMISSIONS

FORM 990-EZ FILING INSTRUCTIONS²⁰

Required electronic filing by exempt organizations. For tax years beginning on or after July 2, 2019, section 3101 of P.L. 116-25 requires that returns by exempt organizations **be filed electronically**.

FORM 990 & FORM 990-EZ FILERS²¹

- Therefore, any tax-exempt organization required to file a Form 990 or Form 990-EZ must file electronically.
- No exceptions

AUTHORIZED IRS ELECTRONIC RETURN PROVIDERS - PARTIAL LIST

- Form 990 Online – www.efile.form990.org
 - Meets Form 990 & 990-EZ and Schedules, 8868 requirements
 - Cost: Free for organizations with less than \$100K in gross receipts
- Express Tax Exempt – www.expresstaxexempt.com
 - Meets Form 990 & 990-EZ and Schedules, 8868 requirements
 - Cost: Form 990-EZ \$59.90/return; Form 990 \$69.90/return
- Tax Act – www.taxact.com
 - Meets Form 990 & 990-EZ and Schedules, 8868 requirements
 - Cost: Download version \$109.95

Other: Engage with an accountant to prepare

Note: Presenter is neither recommending nor advocating these vendors listed above. These are suggested from the irs website as authorized vendors, meeting the irs requirements and are the least expensive of the vendors identified.

LET'S LOOK 'UNDER THE HOOD' OF THE FORM 990-EZ²³

- Let's look at the Form 990-EZ

- [Go to form](#)

An Example of a filed Form 990-EZ with Schedules

- [Fight to End Exploitation, Inc.](#)





STATE ANNUAL REPORTING REQUIREMENTS

WISCONSIN STATE REPORTING REQUIREMENTS

- Important to check state taxing authorities to verify registration and reporting requirements
- Every state requires some form of an annual corporate report
- Most states have some form of charitable status registration
 - Requires annual reporting, including financials, for nonprofits receiving donations
- Most states require registering for state bingo/raffle license
- Must file for sales tax exemption, if available



DONATIONS FUNDAMENTALS



DONATIONS

- Charitable contributions received.
 - Donations of amounts greater than \$250
 - IRS Requirement to provide written contemporaneous acknowledgment to donor
 - It is just a good business practice to recognize and acknowledge all donations, by mail or email

QUID PRO QUO DONATION DISCLOSURES

- What is a quid pro quo donation?
 - Something for something. A donor makes a contribution to an organization and the donor receives a good or service in return for the donation.
- What is the issue?
 - IRS doesn't want the donor to claim the entire amount of contribution if it received an offsetting amount of a good or service.
 - Example: Donor gives \$100, however, receives a \$40 concert ticket from the charitable organization to induce the donation.
- Example of a contemporaneous donor letter:
 - Thank you for your \$100 donation to Crime Stoppers on 7/14/2020. In exchange for your contribution, we provided a concert ticket worth an estimated fair market value of \$40. Therefore, for federal income tax purposes, your contribution deduction is limited to \$60.



SPONSORSHIP FUNDAMENTALS



BE AWARE OF IRS SPONSORSHIP RESTRICTIONS

- Sponsorships are facing additional IRS scrutiny
- IRS definition of corporate sponsorship
 - Financial support by an outside party, usually a corporation, for the good of the non-profit organization. It is distinguished from a charitable contribution in that sponsor is typically motivated by a desire to receive public acknowledgement in exchange for its support.
- Non-profit receives corporate sponsorship is 'tax-free' if what is given corporate sponsor in return is an acknowledgement of thanks.
 - Hang a banner, conference program thank you or acknowledgement at podium.
 - Include: name, logo, address, telephone and products.
- Two important prohibitions
 - Non-profit **cannot make a qualitative judgement** on corporate sponsors products or services
 - Non-profit **cannot ask its members or public to buy the products or services**
 - Simple statement, 'Please patronize our sponsors' may jeopardize sponsorship



GAMING AS FUNDRAISING – REPORTING REQUIREMENTS

DO YOU CONDUCT GAMING AS A FUNDRAISING ACTIVITY?

- One of the most common and successful methods of producing sources of income for charities were gaming fundraising events
- Is gaming furthering your tax-exempt purpose?
 - Unrelated Business Income (UBI) reporting – Form 990-T. If it is not an ongoing business activity, it will not be treated as UBI
 - Also, ensure gaming doesn't become a substantial part of the organization's activities
 - Ensure that the gaming meets one of the UBI exceptions (type of gaming allowed)
- What about state gaming regulations?
 - Each state has its own regulatory statutes regarding gaming. Certain licenses must be acquired, and reporting requirements maintained.
 - Check your state statutes in case any specific excise taxes must be paid
 - Some states require games to be conducted by volunteers

DO YOU CONDUCT GAMING AS A FUNDRAISING ACTIVITY – CONT'D

- What about reporting requirements?
 - Similar to a Form 1099 process, winnings of \$600 or more, after considering the wager, must be reported to the IRS and individual on Form W2-G
 - Copy A of the W2-G is submitted to the IRS using Transmittal Form 1096
 - See Publication 3079 for additional details
- Does the organization need to take any withholding?
 - When the net proceeds exceed \$5,000, the regular withholding rate is 25%
 - This withholding will be placed on the Form W2-G, and transmitted to the IRS on Form 945
 - Withholdings are not required from traditional bingo, keno, slot machines or poker tournaments, however, net proceeds in winnings still need to be reported.
- Penalties and interest may be charged to the charitable organization if reporting requirements are not met



NEW ACCOUNTING RULE – REVENUE RECOGNITION

ACCOUNTING PROMULGATION – REVENUE RECOGNITION

Do any contributions involve a contract or certain conditions that must be met?

- Matching contributions
 - Record the match after the goal achieved
- A restricted donation, such as achieving or accomplishing a specific request
 - Accept as a donation **only** if your organization can meet the specific request.
 - Hold as a restricted Asset until the specific request is met.
- May affect revenue between fiscal years

ACCOUNTING PROMULGATION – REVENUE RECOGNITION

Do any contributions involve a contract or certain conditions that must be met (Cont'd)?

- Large Reward Agreements/Contributions
 - Measurable performance indicators to achieve?
 - Crime must be solved for program to keep funds?
 - All or portion of funds may be returned for non-performance?
 - Time limits involved?
- Record funds as revenue/Donation when measurable performance achieved
 - Crime resolved from Crime Stoppers tip and reward paid
 - Matching recognition of revenue to performance
- Again, may affect revenue between fiscal years

ACCOUNTING PROMULGATION – REVENUE RECOGNITION

Do any contributions involve a contract or certain conditions that must be met (Cont'd)?

- Handling accounting for large supplemental reward Agreements
 - Set up as a liability on balance sheet – unearned or deferred revenue
 - Do not treat as a donation initially
 - Donation issues with taxes
 - Crime solved and reward requested
 - Release liability and record as donation
 - Send donor contemporaneous letter for receipt of donation
 - Pay anonymous tipster the agreed upon reward

ACCOUNTING PROMULGATION – REVENUE RECOGNITION

Do any contributions involve a contract or certain conditions that must be met (Cont'd)?

- Handling accounting for large supplemental reward Agreements
 - Crime not solved – funding source requests funds returned
 - Return funds from liability account to funder. No donation reporting required.
 - Crime not solved – funding source requests portion of funds returned
 - Relieve liability for portion of donation are requested by funder
 - Send a contemporaneous donation letter to funder for donated portion
 - Return remainder of funds from liability account to funder
- Since there are no services provided, this is not reportable on a Form 1099 MISC



DON'T DISREGARD INTERNAL CONTROLS

INTERNAL CONTROLS FOR NONPROFITS

- “Internal controls” are financial management practices that are systematically used to prevent misuse and misappropriation of assets, such as occur through theft or embezzlement.
- Internal controls are generally described in written policies that set forth the procedures that the nonprofit will follow, as well as who is responsible.
- The goal of internal controls is to create business practices that serve as “checks and balances” on staff (and sometimes board members) and/or outside vendors, in order to reduce the risk of misappropriation of funds/assets.

INTERNAL CONTROLS FOR NONPROFITS

Examples of Internal Controls

- Segregation of Duties
- Two signatures on checks
- Background checks on those handling money
- Obtain a fiduciary/Crime Bond
- Conduct an annual Audit/Review/Internal financial analysis
- Develop organizational checklists; who is responsible for what and when
- Document destruction policy
- Conflict of interest

Former Crimestoppers Director Charged with Embezzlement

Friday, July 27, 2018 at 2:49



From the San Juan Co. Sheriff's Office:

In recent weeks, the San Juan County Crime Stoppers Board of Directors approached our Detectives Division for assistance with discrepancies in their financial statements. During the investigation, bank statements and financial statements were acquired for a two-and-a-half-year period. **Detectives have located over \$2300.00 in unreported charges made by the Executive Director.** including personal purchases and ATM cash withdraws. The **former Executive Director, Carlee Hooper, turned herself in** today on a 4th degree Felony Warrant for Embezzlement and a 4th degree Felony Warrant for Tampering with Evidence.

The San Juan County Sheriff's Office reached out to Judge Richard W. Carter (Ret.), Director of Legal Services with Crime Stoppers USA, and he stated the following:

"Over the approximately forty-two (42) years of success with the Crime Stoppers program, there have unfortunately been occasions where the Crime Stoppers charity itself has been the victim of crimes such as theft and embezzlement. In those situations, it is important for the public to know that changes will be made to make Crime Stoppers less vulnerable to crimes; that no one who works with Crime Stoppers is above the law; and that Crime Stoppers ask that no mercy be extended to any criminal defendant who preys upon charities which depend upon citizen volunteers and charitable dollars. Lastly, you CAN trust that information Crime Stoppers receives is protected and our promises of anonymity will be kept."

? QUESTIONS ?

TODAY'S FINANCIAL COMPLIANCE TOPICS

Did we meet our objectives?

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CONTACT INFORMATION:

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THANK YOU!

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KSA HAPPY PRODUCTIONS