

SCHEDULE G

- Gaming, fundraising, professional fundraising
- Required if >\$15K in professional fundraising activities

PART I

- Does not include costs for employees who are fundraisers
- Disclose 10 highest paid 3rd parties >\$5K. More focus by state AGs than IRS; intent is to look at how much net funds the organization nets
- Be careful as this section indicates legal implications, although it looks like a tax form
- Costs of **newsletters or other fundraising materials** as prepared by consultants should be considered a fundraising expense EVEN IF no funds were raised; it's an all facts and circumstances situation.

PART II

- > \$15K total revenue for event
- Report 2 largest events with >\$5K in gross receipts
- Net out contributions from event (may make event look like it lost money)

GAMING ACTIVITY

- Licensure – state law requirements are important and are not a tax question
 - Raffles typically require a gaming license
 - “Suggested donations” – if a raffle is “free,” but all folks are entered in a prize drawing without requiring a ticket purchase, not a reportable raffle
 - If a ticket purchaser doesn't win a prize, the ticket purchase is still not considered a donation

EXAMPLE

1. Gross Receipts – event tickets, auction process < FMV of donated item
 - a. On Part III, you add gross receipts plus contributions on line 1, then back out contributions on line 2
 - b. Balancing act
 - i. May be good from a donor relations perspective to value the FMV of the ticket to a lower amount so that donor has nice write-off, but looks “bad” on Schedule G.
 - ii. Can also increase FMV of ticket to make Schedule G look better.
 - iii. Can provide more info. On Part IV to better explain total impact of the event to tell story better.
2. Contributions – donated items, auction process > FMV of donated item
3. Gaming – raffle tickets (*do not appear in Part III of Schedule G*)

- a. Typically keep GAAP and tax reporting consistent so that fundraising event appears as CGS.

- Donation of timeshare is not tax-deductible to donee and is not contribution revenue

Form 990 ,Part VIII

Line 1

- One-way revenue: dues that are support, donation portion of fundraising, government grants
- Goes to Schedule A, Parts II and III, line 1 (with some adjustments)

Line 2

- N/A for my NFPs
 - Government grants where govt. is receiving services/benefit
- Two-way fee for service revenue
- Goes to Schedule A, Parts II and III, line 2 (with some adjustments)

Line 11

- All other revenue (*do not include program revenue*)

Column c

- Should tie to 990-T

Book/Tax Differences

Unrealized gain/loss on investments

Investment expenses

Part XI – revenue of consolidated organizations on consolidated books

Write-off of pledges netted against contribution revenue (reduce year that pledge was originally included in books in Schedule A unless using allowance for uncollectible pledges method)

Donated services or use of facilities

SCHEDULE A

Four Categories for 501(c)(3)

- Part I (church/school/hospital/medical research/govt/public safety) – not required to do public support
- Part II (**donative public charity** – support primarily on donations from broad base of public.)
 - Must be at least 33 1/3 from donations NOT program revenue over 5-year period otherwise must do 990-PF. Get 1-year pass if fail 1 year of test.

- o High investment income can tip the scale on the support test
- o Must calculate 2% of revenue as amount that an individual donor (individual + spouse + private foundation they set up is aggregated)
- o Corporate/Large Donors
 - Is the donation a one-time donation? If so, Unusual Grant (not required to get certification from IRS, but could be good idea)
- Part III (operating public charity – museums, etc.)
- Part IV and V (supporting organizations)

NOT1902 – Best Practices in Documenting Internal Controls for Risk Assessments

Requirements for Internal Control Assessment

- Must conduct understanding of IC relative to audit (regardless of whether controls exist or not)
- Must evaluate design of IC by determining whether IC has been implemented
 - o **What can go wrong and what steps are in place to mitigate risk?**
 - o Must have solid understanding of client

Manual and Automated Controls

- Automation may or may not work if human can intervene (or how they can intervene)
- Good to have manual review to check automated rules/controls to ensure it is used (users added to IT system, etc.)
- With authorization/signature, are the appropriate items being reviewed? Some authorizations have a checklist for compliance requirements
- Too many/too burdensome controls can be ineffective (and even create more problems)

Evaluation of Control

- Would the control work (singly or in combination)? Is it poorly designed?
 - o Poor design may indicate weakness in IC
- Governance
- Process for subledger to GL; what are override processes?

NOT1907 – FASB/GAAP UPDATE

Standards Implementation

Public/Non-public

- Unless private placement of debt, in public market so public for Revenue/Grants and Contracts ASUs

Technical Inquiry Service

- Can get one-one-one assistance with technical implementation of specific ASUs

Implementation Web Portal

- www.fasb.org/implementation
- ASU 2018-08: webcast on understanding/implementing/FAQs
- Staff Q&A for grants/contracts updates released 06/06/19j

ASU 2016-14

- Ensure PSF has implemented all pieces (net asset classification, liquidity & availability, Expenses, Statement of Cash Flows, and Investment Return)
 - AICPA Guidance might be good reference

ASU 2018-08 Grants and contracts

- Applies to all Statement 116 items, including pledges (intended to be a parallel construct for revenue recognition changes)
- Reciprocal or non-reciprocal
 - Non-reciprocal if a societal benefit is main product (even if grantor receives indirect benefit as member of general public). If asset is retained by NFP is a key consideration. If asset right reverts to donor, then reciprocal transaction.
- Key recent clarifications
 - Terms of agreement
 - Point of entitlement
 - If grant document specifies metrics or deliverables, creates measurable barrier and is a conditional gift
 - If funds are simply restricted to a program, then gift is unconditional.
 - Qualifying expenses are considered a barrier that creates a conditional grant. Requirement to provide audited FS or line item deviations from budgeted grant do not create a conditional grant is considered an administrative requirement.
 - Slide 15
 - Important to bucketize revenue streams and focus on material amounts

ASU 2018-15 Cloud computing

Feasibility and training are not capitalizable, but implementation is

- Group amortization of capitalized software with hosting fees
- Capitalized portion grouped with prepaid hosting fees

NOT1909 – How do I Implement That?

2016-01 2018-03 – Financial Instruments (Recognition of

- Effective years starting after 12/15/18
- Big change is that equity isn't just common stock and can include partnerships, venture capital funds, and equity securities without readily determinable value
- See slide 5 for disclosure for equity without readily determinable FV

2016-15 – Cash Flows

- Effective years starting after 12/15/18
- Zero coupon bonds – accreted interest to operating CF
- Distributions from equity method returns OF investment (@ sale) are Investing CF
- Proceeds of NFP owned life insurance – investing CF
- Prepayment or extinguishment of debt – financing CF
- Zero coupon debt principal – financing CF
- Settlement of insurance claims – has multiple location!

2016-18 – Cash Flows

- Effective years starting after 12/15/20
- Restricted cash equivalents must be reflected in beginning and ending totals of cash
- Movement of cash from cash to investment transfers
- Board-restricted cash is affected by this standard
- Can just be in a note and not on the face of the FS

2018-03 – Fair Value Measurement

- Can be adopted piecemeal
- Affects disclosures

2018-15 – Cloud computing

NOT1918 – Charitable Solicitations

- Org Must register/renew-report annually in a state to solicit registrations including any time you have a donate button on your site
 - o 41 states and DC (some exceptions in AZ where only veterans' orgs are required to file)
 - o Typically exempt if fundraising under \$25K per year
 - o Orgs for which solicitations are limited to membership
- Professional fundraiser
 - o Persons solicited include for-profit companies
 - o Including person asking for donations for raffles, auctions, etc.
- Fundraising Counsel
- Commercial Co-Venture
 - o Doesn't include register round-up donations to charities
 - o IL has requirement for CCVs unless \$4K or less. NO FORM

Filings

- Annual, info. Is public, record retention requirements

Charleston

- If \$25K or more came through donate button in each state
- Register in state you are domiciled in

Disclosures

- Must present certain disclosures on website (may be hyperlink to page with full disclosures)
- Physical paper must come with disclosure

Reporting Issues

- OR – have to spend a minimum amount per year for donors to get OR donation deduction
- Gifts in kind – big issue related to valuation, didn't comply with GAAP

ASU 2018-08

- Clarification of Statement 116 to explain whether grants are exchange or non-exchange and whether the gift is conditional/unconditional
- Non-public: effective YE after 12/15/18 for received funds and after 12/15/20 for grants sent
- Anything closed out in years prior to effective dates are grandfathered. If partially recognized, then we only begin implementation with current year and leave prior recognition as booked.
- Topic 606 – Accounting for a contract with a Customer
 - See slide 5 for rules

Barriers vs. Guideposts

- Budget (line item or general) is not considered a barrier
 - Required approval for budget deviations is also not a barrier – just making sure guideposts are on track
 - If stipulation that portions of grants require that governmental agency has an approved budget, that is conditional; is a contingent situation
- Matching vs. Cost Sharing
 - Matching requires raising funds from an outside source to match grant
 - Cost sharing requires spending to be entitled to funds, which is a barrier
- Ambiguous terms
 - Default is conditional grant if terms are not clear

NOT1930 – Sales Tax

Information Services & Software as a Service

- Taxable in 12 states and 17 states, respectively

Sales Tax Nexus

- Goods/services are taxable in the customer's state regardless of whether the org. has a physical presence in that state.
 - No change to tax-exempt goods/services at a state level or which orgs are subject to tax
 - Nexus for soliciting contributions is not the same as nexus for sales tax

Registration

- Register for sales tax as necessary
- Streamlined sales tax project

- o Brings uniformity to definitions and rules across states.
 - o State collects for localities and distributes taxes down
- Marketplace facilitators (i.e. Amazon, Etsy, eBay, etc.)
 - o Variation across states
 - o If company is handling cash on behalf of seller, then responsibility SB to marketplace facilitator, but not consistent and official responsibility is the **seller**.
 - o CA is holding sellers responsible if marketplace facilitator *stored* inventory in CA and should charge CA sales tax; stating inventory storage as nexus
 - o MA stated that computer cookies are physical presence
- Work plan
 - o Slide 19
 - Where are customers?
 - What is sales volume by state?
 - What is count of sales transactions by state?
 - What is the minimum threshold for sales count and amount for these states?
 - Are any items sales tax exempt?
 - Are we exempt in the state?
 - o Voluntary Disclosure Agreement?

Unclaimed Property

- Liability owed to an individual or entity that has not been paid
- If liability is unpaid after a dormancy period (as defined by state), then remit to state.
 - o State collects money and can earn money on funds, but cannot use corpus
 - o Many states requiring self audits
 - o A/P often 3-5 years
 - o International – send to DC?
 - o May not need to file if there is nothing remittable, but varies by state!
- Priority
 - o 1: State of last known address
 - o 2: State of incorporation
- Work plan
 - o Slide 28
- Grants, financial aid, tutorials
 - o Put language into contract stating an expiration date so that payment becomes null and void if not claimed by a certain date

NOT1933 – I Have to Disclose What?

Investment Returns

- Need to investigate direct vs. indirect costs of investment returns

Liquidity disclosure

- No set format, but best if take total cash and back out amounts that can be tied elsewhere in financials (i.e. total cash less cash restricted by donors or board designations)

Expense allocation by function

- Need to disclose the method that is used (square footage, employee time, etc.)
- Slide 8 – copy disclosure language

Contracts with Customers

- Require rollforward, when revenue is recognized and performance obligation info.

Property & Equipment

- Slide 24 – use for policy

In-Kind Contributions

- Slide 31 – use for policy

Interrelated Entities

- Slide 31 – does this apply to fiscal sponsorees that are not a separate legal entity?
These are currently considered temporarily restricted donations

Disclosure requirements

- Slide 38

NOT1955 – Common Tax errors in Compensation

Excellent – go back and write a policy about our processes for determining contractor vs. employee for all 1099 recipients.

NOT19UP13 – Revenue Recognition - Membership Association

606

- Implementation 12/31/18 for public and
- 5-step process for analyzing non-contribution portion of membership dues

605

- Addresses contribution portion of membership dues, which can be deducted

Membership and fiscal year

- How do I know what is a contribution vs. performance obligation satisfaction?
 - First allocate to performance obligation. Portion and then back into contribution
- Determine performance obligations for access to benefits to allocate revenue
 - AARP example: bi-monthly magazine is about \$2/\$16 annual membership (using cost basis) – similar to bulletin. Recognize membership evenly across months because cost of magazine and other membership benefits is the same over the audit period.

- o How to value advocacy? AARP argues that the advocacy is for public benefit even if some members disagree with the position of the organization; is a constant value although some work fluctuates with elections.
- o Discounts
 - “stand ready performance obligation.” available to almost all members (with exception of a few localized discounts). Able to analyze how often discounts are taken, but do not use this information for revenue recognition. Need to prove that seasonality doesn’t affect use of member discounts. Performance obligation is to provide discounts at the same level throughout the level.
 - Annual conference discount: What is FV of benefit received? Also look at wording of membership agreement (if discount is main attractor, would need to allocate, whereas a de minimus amount could not be allocated).
- If bundling membership with other products/services, you have to bifurcate the revenue

Foreign Tax Issues

Must update on anti-terrorism and corruption rules for grants

NOT1964 – Contributions and Grants

Decision Tree

Gift Counting Policy

NOT1973 – Financial Sustainability and Reserves

What counts as reserves?

- Must be liquid (or relatively), freedom from liabilities, unrestricted donor intent
- Can include non-balance sheet items like lines of credit

Types of reserves

- Operating reserve (everyday expenses)
- Risk reserves (self-funded insurance, economic downturns, political issues)
- Opportunity reserves (capital plan, strategic plan, new programming)

Importance of reserves

- 2008 White Paper: nonprofitaccountingbasics.org
 - o Recommends 3 months or 25% of annual expenses
- Watchdogs
 - o BBB
 - 20 BBB standards for charity accountability
 - Charity assessments free at give.org
 - BBB Standard 10 – How much is too much?

- Reserves should not be more than 3 times prior years's expenses unless extenuating circumstances like capital campaign or long-lived service obligations
 - No requirement for a minimum balance of assets
 - o Major issues impacting reserves
 - Donor communications are key – donors typically expect money to be spent quickly to create immediate impact. Transparency!
 - Government cutbacks on grants
 - Changing giving preferences for public donors
 - o Others include CharityWatch and Charity Navigator
- Ratings Agency
 - o Moody's
 - Uses not-for-profit scorecard to look at sources and uses of cash
 - Monthly liquidity = operating funds within 30 days + endowment assets liquid within 30 days (including board-designated endowments)
- Investment firms
 - o Change capital - Opportunity reserves
 - Need a multi-year plan to support reserves
 - o Strategies for creating reserves
 - Annual surplus designation
 - Budgetary line item replenishment
 - Targeted Foundation investment
 - Add amount to ticket sales
 - \$1 from every ticket purchase goes to fund for the future to create a commitment from the public
- Disclosures
 - o See slide 24

Laura

NOT1902. Best Practices in Documenting Internal Controls for Risk Assessments

<https://www.aicpa.org/content/dam/aicpa/interestareas/peerreview/eqq/eqq-examples-of-controls-in-small-entities.pdf>

NOT1921. Risky Business: Properly Assessing and Responding to Risk

[Aicpa.org/riskassessment](https://aicpa.org/riskassessment)

NOT1962. Doing Well & Doing Good: Myths & Realities of Impact Investing

- MSCI KLD 400 Social Index, the sustainable equivalent of the S&P 500, had similar returns and volatility to the S&P 500 index.
- <https://www.msci.com/esg-screened-indexes>

NOT19UP8. Unplugged: Wayfair Case & State Issues

Amusement tax: Are you guys familiar with amusement tax rules? We talked about this in the unplugged followup to the Wayfair session. Some states and municipalities charge an amusement tax, which is often applicable to “side events” of a conference. I’m thinking this might apply to us with things like the dinner we had at the Great Lakes Science Center, or the PyLadies auction. We may want to look at this before we start selling tickets for 2020.

Post Conference Projects

1. Final Kurt transition topics
 - a. Is Civi transition done?
 - i. Make sure we have anything we need for updates
 - b. Historic documentation
 - c. 1042
2. 05/31/19 financials
 - a. Contribution reconciliations
 - i. Monthly JE to reclass amount over \$99 from membership to contribution
 - b. Fiscal sponsoree statements/accruals
 - c. Admin fees for fiscal sponsorees
 - d. First Data info.
 - i. Joe to get login to CTE to pull data
 - ii. Phyllis to get First Data reports
 - e. OTF/Facebook grant review
 - f. PyCascades sales tax return
 - g. A/R and A/P aging review
 - h. Reconcile sponsor sheets to GL
 - i. Finish monthly checklist (PD)
3. 2018 final financials
4. 2018 990
5. Unclaimed property policy/filing
6. Audit prep
7. External wiki
8. Redo contribution acknowledgement letters
9. Sales Tax Analysis
10. State charitable solicitation filings - outsource?