



Budgeting, Finance and Compliance: Understanding the Basics



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Agenda

This session will cover basic accounting and financial management concepts, and financial and informational reporting requirements.

Topics covered will include:

- Secretary of the Commonwealth of Massachusetts Annual Report

- Form 3ABC

- Massachusetts Form PC

- IRS Filings

- Unrelated Business Income Tax (UBIT)

- Implications of the Tax Cuts & Jobs Act for Non-Profits

- Financial Statements

- Basis of Accounting

- Updated Revenue Recognition Requirements

- Contributions

- Budgets

- Internal Controls

- Policies – Conflict of Interest, Whistle Blower, Document Retention and Destruction

- Changes in Accounting Standards – Financial Reporting, Leases

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Secretary of the Commonwealth of MA Annual Report

- Maintain status as a legal entity operating in Massachusetts
- Due November 1st for all non-profit entities regardless of fiscal year-end
- Can be filed online or paper filed
- Includes:
 - Date of last annual meeting
 - List of board members with addresses (no P.O. Boxes)
- \$15.00 filing fee
- Not required for trusts

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Form 3ABC

- Reports property held for charitable purposes
- Who must file?
 - All charitable, benevolent, educational, literary, temperance or scientific organizations and trusts owning real or personal property on January 1 in order to receive a local tax exemption on that property for the fiscal year that begins the next July 1.
- When and where are returns filed?
 - On or before March 1 with the board of assessors of each city or town in which the organization owns real or personal property. A return is filed when received by the assessors (not the postmark date).

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Massachusetts Form PC

- Attorney General's Non-Profit Organizations/Public Charities Division
- All Public Charities with "gross support and revenue" of more than \$5,000 must submit a Form 990-EZ, Form 990, or 990-PF (as appropriate) along with Form PC.
- Reviewed financial statements required if "gross support and revenue" totals more than \$200,000 and not more than \$500,000.
- Audited financial statements required if "gross support and revenue" totals more than \$500,000, prepared in accordance with GAAP.
- Annual filing fee is on a sliding scale based on gross support and revenue - \$35 to \$2,000.
- For purposes of these requirements, "gross support and revenue" will not include:
 - (a) the value of in-kind services and the use of facilities;
 - (b) proceeds from the sale of assets other than inventory, i.e. fixed assets, securities
- Open to public inspection - Document Search:
<http://www.charities.ago.state.ma.us>

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Form 990-N

- Most small tax-exempt organizations whose gross receipts are normally \$50,000 or less may file Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ*.
- An organization's gross receipts are considered to be \$50,000 or less if the organization:
 - Has been in existence for 1 year or less and received, or donors have pledged to give, \$75,000 or less during its first taxable year;
 - Has been in existence between 1 and 3 years and averaged \$60,000 or less in gross receipts during each of its first two tax years; or
 - Is at least 3 years old and averaged \$50,000 or less in gross receipts for the immediately preceding 3 tax years (including the year for which calculations are being made).
- When is Form 990-N due? How often do I need to file?
 - Form 990-N is due every year by the 15th day of the 5th month after the close of your tax year (usually the same as your accounting period).
- NOTE – In Massachusetts Public Charities are required to file Form 990-EZ or 990 with their Form PC if they have \$5,000 or more in gross revenues. You may as well just file Form 990-EZ.

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Form 990-EZ

- What is Form 990-EZ?
 - Form 990-EZ is the short form of the annual information return for exempt organizations. May include up to eight supplemental schedules.
- Who can file Form 990-EZ?
 - Form 990-EZ can be filed by most organizations with gross receipts of less than \$200,000 and total assets of less than \$500,000 at the end of their tax year.
- When is Form 990-EZ due?
 - 15th day of the 5th month after your year-end (May 15th for calendar year organizations)
 - One 6-month extension can be requested
- Open to public inspection
 - Application for recognition of exemption and annual information returns, free of charge except for nominal copying and actual postage, at its principal, regional and district offices during regular business hours
 - Annual returns for 3 years from the date required to be filed or actually filed – whichever is later

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Form 990

- What is Form 990?
 - Form 990, Return of Organization Exempt From Income Tax, is the annual information return for tax-exempt organizations. May include up to 16 additional supplemental schedules.
- Who is required to file Form 990?
 - Organizations with gross receipts \geq \$200,000, or Total assets \geq \$500,000
- When is Form 990 due?
 - 15th day of the 5th month after your year-end (May 15th for calendar year organizations)
 - One 6-month extension can be requested
- Open to public inspection (see above)

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Form 990 / 990-EZ Supplemental Schedules

- **Schedule A - Public Charity Status and Public Support***
 - Public Support Test
- **Schedule B - Schedule of Contributors***
 - NOT PUBLIC INFORMATION
- **Schedule C - Political Campaign and Lobbying Activities***
 - 501(h) election
- **Schedule D - Supplemental Financial Statements**
 - Part III – Collections of Art, Historical Treasures, or Other Similar Assets
 - Part V - Endowment Funds
 - Part VI - Land, Buildings, and Equipment
 - Parts VII – XII – Other Investments, Assets, and Liabilities, Reconciliation to Financial Statements
- **Schedule E – Schools***
- **Schedule F – Statement of Activities Outside the United States**
- **Schedule G - Supplemental Information Regarding Fundraising or Gaming Activities***

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Form 990 / 990-EZ Supplemental Schedules

- **Schedule I - Supplemental Information on Grants and Other Assistance to Organizations, Governments, and Individuals in the United States**
- **Schedule J - Compensation Information**
- **Schedule K - Supplemental Information on Tax-Exempt Bonds**
- **Schedule L - Transactions with Interested Persons***
- **Schedule M - Non-Cash Contributions Schedule**
 - Types of contributions
 - Number of contributions or items contributed
 - Value of non-cash contribution
 - Method of determining the value of non-cash contributions
- **Schedule N - Liquidation, Termination, Dissolution, or Significant Disposition of Assets***
- **Schedule O - Supplemental Information to Form 990***
- **Schedule R - Related Organizations and Unrelated Partnerships**

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Schedule A – Public Support Test

- Publicly supported organizations are described in Sections 509(a)(1) and 509(a)(2) of the Internal Revenue Code. The difference between 509(a)(1) and 509(a)(2) organizations is in the requirements of the public support test.
- Generally an organization meets the public support test if it:
 - Normally receives at least one-third of its total support from government agencies and the general public (“favorable” support); or
 - Receives at least 10 percent of its support from these sources and meets an “attraction of public support” requirement. This is often called the facts and circumstances test.
- **Failure to meet the public support test can cause an organization to lose its public charity status and be classified as a private foundation, which makes it more difficult to carry out its mission. It is important that someone within the organization (board member, employee, outside advisor) understand the public support test and monitor its performance so that there is time to raise funds to meet the test’s requirements.**



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Form 990-T & MA Form M-990T

- What is unrelated business income?
 - Income from a trade or business, regularly carried on, that is not substantially related to the charitable, educational, or other purpose that is the basis for the organization's exemption.
- Who is required to file Form 990-T?
 - An exempt organization that has \$1,000 or more of gross income from an unrelated business must file Form 990-T.
 - Gross income is gross receipts minus the cost of goods sold
 - Estimated tax payments required if tax is expected to be \$500 or more during the year.
- When is Form 990-T due?
 - 15th day of the 5th month after your year-end (May 15th for calendar year organizations)
 - A 6-month extension can be requested. Extends time to file, but not to pay tax due.
- When is Form M-990T due?
 - 15th day of the 3rd month after your year-end (March 15th for calendar year organizations)
 - An 8-month extension can be requested. Extends time to file, but not to pay tax due.
- Open to public inspection (see above)

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Tax Cuts & Jobs Act

- **The Silo Effect**

- Effective for Tax years starting on or after December 31, 2017
- For entities that operate more than one unrelated business activity, the entity may no longer offset the taxable profit in one activity with the loss from another.
- You can determine whether you have different unrelated business activities by looking at the North American Industry Classification System (NAICS) code used on the Form 990 and 990-T. It is available at:
https://www.census.gov/eos/www/naics/2017NAICS/2017_NAICS_Manual.pdf

- **Employee Benefits**

- Effective for expenditures incurred on or after January 1, 2018
- Organizations can no longer deduct the cost of certain employee fringe benefits provided tax free to their employees, specifically, parking, transportation and the use of in-house athletic facilities
- For exempt organizations, this means filing Form 990-T and claiming those costs as UBTI – although not subject to the Silo rule above.
- Report these costs on 990-T even if there is no other UBI
- If the cost of fringe benefits exceeds \$260 (for 2018) per month per employee, the excess is taxable to the employees and not subject to UBIT

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Tax Cuts & Jobs Act

- **Employee Benefits (continued)**

- Qualified parking includes, “parking provided to an employee on or near the business premises of the employer or on or near a location from which the employee commutes to work [using a transit pass, in a commuter highway vehicle, or by carpool],” by paying a parking lot owner directly, reimbursing an employee for the parking expense, or providing parking on property the employer owns or leases
- Qualified transportation that is taxable includes, transit passes, commuter highway vehicle (vanpool), and Bicycle Commuting Benefits
- Employers have the option of including the value of the benefits in the employees’ W-2s or eliminating the benefits all together to eliminate the need to file the 990-T
- Massachusetts adopted the Federal UBIT laws in 2010 – so until there is further guidance, there is an assumption that an M-990T is required for the benefits as well.

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Financial Statements

- Financial statements may be required by:
 - Federal government
 - Attorney General's Non-Profit Organizations/Public Charities Division
 - The terms of a contract, grant agreement, or loan
 - Decision of the Board of Directors
- Types of Financial Statement engagements
 - Audit – Independent auditor’s opinion on whether the financial statements present fairly the organization’s financial position, changes in net assets, and cash flows in conformity with generally accepted accounting principles (GAAP) or other basis of accounting
 - Single Audit – Audit of compliance with federal compliance requirements performed in conjunction with a financial statement audit when total expenditures of federal awards are \$750,000 or more.
 - Review – CPA obtains limited assurance that material changes to the financial statements are not necessary on order for the financial statements to be in conformity with GAAP or other basis of accounting
 - Compilation – Presents the client’s financial data in the form of financial statements, and does not provide any assurance regarding the financial statements
- Agreed-Upon Procedures engagements may be an alternative when there are no external financial reporting requirements

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Basis of Accounting

- Cash Basis
 - Revenue is recorded when received
 - Expenses are recorded when paid
- Accrual Basis (GAAP)
 - Revenue is recorded when earned
 - Expenses are recorded when incurred
- Other
 - Modified Cash Basis
 - Tax Basis
- Change may require IRS approval with Form 3115

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Accounting Standards Updates

- **Revenue Recognition – Contracts with Customers**
 - ASU 2014-9, effective for non-profit entities with no public debt for fiscal years beginning after 12/15/18 (calendar year 2019 and fiscal year 2020) – early adoption allowed
 - Enhance the comparability of revenue recognition practices across entities
 - Affects any entity that enters into contracts with customers to transfer goods or services
 - Requires entities to recognize revenue when the entity has satisfied its performance obligations under contracts with customers in the amount the entity expects to be entitled to in exchange for the goods or services provided.
- **Revenue Recognition – Contributions Received and Contributions Made**
 - ASU 2018-08, effective for non-profit entities with no public debt for fiscal years beginning after 12/15/18 (calendar year 2019 and fiscal year 2020)
 - Clarifies the difference between an exchange transaction and a contribution and further defines when a contribution is considered conditional or unconditional.
 - Will allow non-profit entities to identify when and how contribution revenue should be recognized

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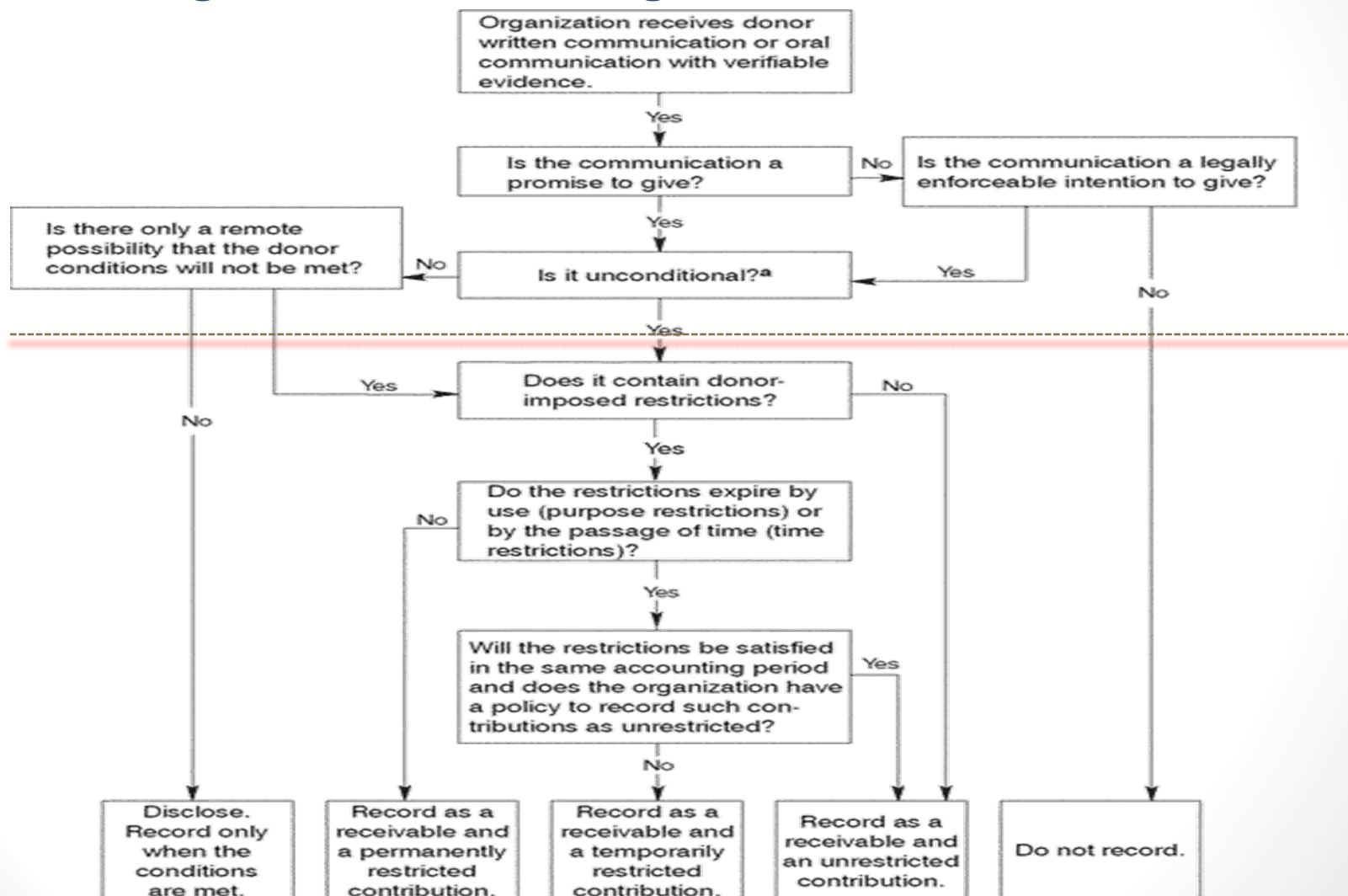
Recording Contributions

- **When to Record Contributions**
 - Cash Basis – When cash is received
 - In-kind Contributions – Goods, Services, Use of Facilities
 - Services
 - Create or enhance nonfinancial assets
 - Require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation



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Recording Contributions - Pledges



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Contributions –Restrictions

- Unrestricted vs. Donor Restricted (Current)
 - Unrestricted (without donor restrictions) – Not subject to donor restrictions – general purpose contributions
 - Temporarily Restricted (with donor restrictions – temporary in nature) - Net assets subject to donor imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.
 - Permanently Restricted (with donor restrictions – perpetual in nature) - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes
- Effective for annual reporting periods starting on or after December 31, 2017 – for financial reporting purposes, net assets will be classified as either “without donor restrictions” or with “donor restrictions,”BUT

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Contributions –Written Acknowledgment

- Although it's a donor's responsibility to obtain a written acknowledgment, an organization can assist a donor by providing a timely, written statement containing:
 - 1) the name of organization
 - 2) the amount of cash contribution
 - 3) a description (but not the value) of non-cash contribution
 - 4) a statement that no goods or services were provided by the organization in return for the contribution, if that was the case
 - 5) a description and good faith estimate of the value of goods or services, if any, that an organization provided in return for the contribution (i.e. the value of meals or entertainment)
- Noncash contributions of \$5,000 or more
 - For claimed contributions over \$5,000, generally a qualified appraisal prepared by a qualified appraiser must be obtained – See Form 8283
- Additional Information:
 - Publication 1771, Charitable Contributions - Substantiation and Disclosure Requirements

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Contributions –Quid Pro Quo

- A charitable organization must provide a written disclosure statement to donors of a quid pro quo contribution in excess of \$75.
- A quid pro quo contribution is a payment made to a charity by a donor that is partly a contribution and partly in exchange for goods or services provided to the donor by the charity.
 - 1) the name of organization
 - 2) the amount of cash contribution
 - 3) a description (but not the value) of non-cash contribution
 - 4) a statement that no goods or services were provided by the organization in return for the contribution, if that was the case
 - 5) a description and good faith estimate of the value of goods or services, if any, that an organization provided in return for the contribution
- **Penalty for not providing disclosure is \$10 per contribution up to \$5,000 per fundraising event or mailing.**

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Budgets

- Important for financial sustainability
- A budget is NOT a cash flow projection, rather an estimate of profit/loss based on expectations
- Do not have to balance or break even (more important to be realistic)
 - A surplus can serve as a reserve for future years or fund additional programs and projects
 - A deficit could be planned for after a change in the overall economic conditions
 - A deficit could also be the result of a timing issue (use of temporarily rest. N/A)
 - Recurring deficits need to be evaluated and action may need to be taken
- Periodic review of actual results compared to budgeted results
- Budgets may be modified during the year as a result of changing circumstances

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Internal Controls

- **In an “effective” internal control system, the following five components work to support the achievement of an entity’s mission, strategies and related business objectives.**
 - Control Environment - Actions, policies, and procedures that reflect the overall attitude of the board and management of an entity about internal control and its importance
 - Conflict of Interest Policy (Annual acknowledgement and disclosure)
 - Whistle Blower Policy
 - Document Retention and Destruction Policy
 - Other Policies
 - Risk Assessment - Identification and analysis of risks relevant to the preparation of the financial statements and in the Organization’s ability to carry out its mission (Fraud and Other Risks).
 - Control Activities - Procedures established to meet control objectives.
 - Information and Communication - Methods used to initiate, record, process, and report transactions and to maintain accountability for related assets.
 - Monitoring - Ongoing and periodic assessment of the quality of internal control performance to determine whether controls are operating as intended and modified when needed.

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Accounting Standards Updates

- **Not-for-Profit Entities**

- ASU 2016-14, effective for non-profit entities for fiscal years beginning after 12/15/17 (calendar year 2018 and fiscal year 2019) – early adoption allowed
- Increase transparency and comparability among organizations, simplify and improve reporting and disclosure with regard to liquidity, financial performance, and cash flows
- Reduce net asset classes to Net Assets without Donor Restrictions and Net Assets with Donor Restrictions
- Changes how investment return is reported and disclosed
- Requires a statement of functional expenses
- Improves disclosure related to liquidity of assets and liabilities
- Simplifies the statement of cash flows reported under the direct method
- Enhanced disclosures about
 - Amounts and purposes of board designations resulting from self-imposed limits on resources without donor restrictions
 - Composition of net assets with donor restrictions
 - How the NPO manages its liquid resources to meet cash needs within one year of the date of the financial statements – both quantitative and qualitative
 - Expenses by both natural classification and functional classification
 - Methods used to allocate costs
 - Underwater endowment (if applicable)
 - Report investment return net of external and direct internal investment expenses
 - Use of the “placed-in-service” approach of reporting expirations of restrictions of gifts of cash or other assets to be used to acquire or construct a long-lived asset
- Will need to restate all periods presented in the year of adoption

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Accounting Standards Updates

- **Leases**

- ASU 2016-2, effective for non-profit entities for fiscal years beginning after 12/15/20 (calendar year 2020 and fiscal year 2021) – early adoption allowed
- Increase transparency and comparability among organizations
- Required for all leases of more than 12 months in duration
- Can elect out for leases of 12 months or less by class of underlying asset
- Recognize leases as right-to-use assets with an offsetting lease liability – includes payments for optional periods if reasonably certain to exercise the option to extend or not to exercise the option to terminate and includes payments for purchase options if reasonably certain to exercise
- Distinguish between financing leases (formerly capital leases) and operating leases and separate out current portion from long-term portion in a classified statement of financial position (balance sheet)
- Enhanced disclosures in the notes regarding amount, timing, and uncertainty of cash flows
- Will need to restate all periods presented in the year of adoption
- Effective for subleases as well
- Can affect ratios and possibly debt covenants

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Resources

- **IRS**
 - www.irs.gov/charities-non-profits
 - <https://www.irs.gov/pub/irs-pdf/p1771.pdf>
 - <https://www.stayexempt.irs.gov/>
- **MA Attorney General's Non-Profit Organizations/Public Charities Division**
 - www.mass.gov/ago/doing-business-in-massachusetts/public-charities-or-not-for-profits
- **Techsoup**
 - www.techsoup.org

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Questions



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