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## **Accounting & Financial Reporting for MA Land Trusts March 24, 2018**

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# Accounting & Financial Reporting for MA Land Trusts

## Summary

- **This session will cover basic accounting and financial management concepts, and the financial and informational reporting requirements for Massachusetts Land Trusts. Topics covered will include:**
  - Secretary of the Commonwealth of Massachusetts Annual Report
  - Form 3ABC
  - Massachusetts Form PC
  - IRS Filings
  - Financial Statements
  - Basis of Accounting
  - Accounting Software
  - Financial Record Keeping
  - Contributions
  - Budgets
  - Internal Controls

# Accounting & Financial Reporting for MA Land Trusts

## 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 by mail**
- **Includes**
  - Date of Last Annual Meeting
  - List of the Board of Directors
- **\$15 filing fee**

# Accounting & Financial Reporting for MA Land Trusts

## Form 3ABC

- **Form of 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.

# Accounting & Financial Reporting for MA Land Trusts

## Massachusetts Form PC

- **Attorney General's Non-Profit Organizations/Public Charities Division**
  - None
- **Document Search:** <http://www.charities.ago.state.ma.us>
- **All organizations 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 the 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.**
- **For purposes of the audit requirement, "gross support and revenue" will not include:**
  - (a) the value of donated land to a land conservation trust;
  - (b) the value of an unusual, large, nonrecurring, donation of tangible personal or real property to any public charity provided that such property is used in conducting the organization's charitable programs.

# Accounting & Financial Reporting for MA Land Trusts

## 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. Most land trusts qualify under 509(a)(1).
- **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 a land trust to lose its public charity status and be classified as a private foundation, which makes it more difficult to carry out its land protection mission. It is important that someone associated with the land trust (board member, employee, outside advisor) understanding the public support test and monitor performance against it so that there is time to raise funds to meet the test’s requirements.**



# Accounting & Financial Reporting for MA Land Trusts

## Form 990-N

- **Most small tax-exempt organizations whose gross receipts are normally \$50,000 or less must 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; and
  - 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).

# Accounting & Financial Reporting for MA Land Trusts

## Form 990-EZ

- **What is Form 990-EZ?**
  - Form 990-EZ is the short form of the annual information return for exempt organizations.
- **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)
  - A 6-month extension can be requested

# Accounting & Financial Reporting for MA Land Trusts

## Form 990

- **What is Form 990?**
  - Form 990, Return of Organization Exempt From Income Tax, is the annual information return for tax-exempt organizations.
- **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)
  - A 6-month extension can be requested

# Accounting & Financial Reporting for MA Land Trusts

## 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 of 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.
- **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 tax is still due.
- **When is Form M-990T due?**
  - 15th day of the 4th month after your year-end (April 15th for calendar year organizations)
  - An 8-month extension can be requested. Extends time to file, but tax is still due.

# Accounting & Financial Reporting for MA Land Trusts

## Form 990 / 990-EZ 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**
- **Schedule D - Supplemental Financial Statements**
  - Part II - Conservation Easements
  - Part V - Endowment Funds
  - Part VI - Land, Buildings, and Equipment
- **Schedule E - Schools**
- **Schedule F - Statement of Activities Outside the United States**
- **Schedule G - Supplemental Information Regarding Fundraising or Gaming Activities**
- **Schedule H - Hospitals**

# Accounting & Financial Reporting for MA Land Trusts

## Form 990 / 990-EZ 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
  - Noncash contribution amount
  - Method of determining noncash contribution amounts
- **Schedule N - Liquidation, Termination, Dissolution, or Significant Disposition of Assets**
- **Schedule O - Supplemental Information to Form 990**
- **Schedule R - Related Organizations and Unrelated Partnerships**

# Accounting & Financial Reporting for MA Land Trusts

## Financial Statements

- **Financial statements may be required by:**
  - 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.
  - 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.
  - Compilation – Presents the client’s financial data in the form of financial statements, and does not provide a basis for obtaining or providing any assurance regarding the financial statements.
- **Agreed-Upon Procedures engagements may be an alternative when there are no external financial statement requirements**

# Accounting & Financial Reporting for MA Land Trusts

## Basis of Accounting

- **Cash Basis**
  - Revenue is recorded when received
  - Expenses are recorded when paid
  - Long-term assets are not capitalized, no depreciation or amortization is recorded
- **Accrual Basis**
  - Revenue is recorded when earned
  - Expenses are recorded when incurred
- **Other**
  - Modified Cash Basis
  - Tax Basis
- **Change may require IRS approval with Form 3115**

# Accounting & Financial Reporting for MA Land Trusts

## Accounting Software

- **Desktop**
  - QuickBooks
  - Quicken
- **Online**
  - QuickBooks Online
  - Xero
  - Right Networks (Remotely Hosted QuickBooks) - [www.rightnetworks.com](http://www.rightnetworks.com)
- **Techsoup.org is a great resource for non-profit technology needs**

# Accounting & Financial Reporting for MA Land Trusts

## Financial Record Keeping

- **Cash**
- **Investments**
- **Land (owned)**
- **Other Assets (if required by basis of accounting)**
- **Mortgages, Loans, Line of Credit**
- **Other liabilities (if required by basis of accounting)**
- **Credit Card**
- **Net Assets**
  - Board Designations
  - Donor Restrictions
- **Revenue and Expenses**
  - Accounts and categories needed for:
    - External reporting (financial statements, 990, etc.)
    - Internal management (specific programs, grants/funds, events)

# Accounting & Financial Reporting for MA Land Trusts

## Contributions - Recording

- **When to Record Contributions**
  - Cash Basis – When cash is received
  - Accrual Basis – See Flow Chart handout
    - In-kind contributions



# Accounting & Financial Reporting for MA Land Trusts

## Contributions - Unrestricted vs. Donor Restricted

- **Unrestricted vs. Donor Restricted**

- Unrestricted – Not subject to donor restrictions – general purpose contributions
- Temporarily Restricted - 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 - 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.
- **ASU 2016-14** – For most organizations, effective starting with the years ending 12/31/18, there will be 2 net asset classes: Net assets without donor restrictions, and Net assets with donor restrictions

# Accounting & Financial Reporting for MA Land Trusts

## Contributions - Written Acknowledgment

- **Unrestricted vs. Donor Restricted**

- 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
- 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

# Accounting & Financial Reporting for MA Land Trusts

## Contributions – Quid Pro Quo Contributions

- **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 partly as a contribution and partly 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
  - 6) a statement that goods or services, if any, that an organization provided in return for the contribution consisted entirely of intangible religious benefits, if that was the case

# Accounting & Financial Reporting for MA Land Trusts

## Budgets

- **Important for financial sustainability**
- **Do not have to balance or break even**
  - 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
  - Recurring deficits need to be evaluated and action may need to be taken
- **Periodic review of actual results to budgeted results**
- **Budgets may need to be modified during the year as circumstances change**

# Accounting & Financial Reporting for MA Land Trusts

## 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 management and directors of an entity about internal control and its importance
  - Risk Assessment - Identification and analysis of risks relevant to the preparation of the financial statements in accordance with GAAP.
  - Control Activities - Policies and procedures established to meet its objectives for financial reporting.
  - 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.

# Accounting & Financial Reporting for MA Land Trusts

## Resources

- **IRS**
  - [www.irs.gov/charities-non-profits](http://www.irs.gov/charities-non-profits)
  - <https://www.irs.gov/pub/irs-pdf/p1771.pdf>
- **MA Attorney General's Non-Profit Organizations/Public Charities Division**
  - [www.mass.gov/ago/doing-business-in-massachusetts/public-charities-or-not-for-profits](http://www.mass.gov/ago/doing-business-in-massachusetts/public-charities-or-not-for-profits)
- **Massachusetts Land Trust Coalition**
  - [www.massland.org](http://www.massland.org)
- **Techsoup**
  - [www.techsoup.org](http://www.techsoup.org)

# Accounting & Financial Reporting for MA Land Trusts

## Questions?

