November 2026

Erie County Cultural Funding Grant Monitoring Program
Nusantara Arts Inc.
January 1, 2023, through December 31, 2024

HON. KEVIN R. HARDWICK
ERIE COUNTY COMPTROLLER

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DIVISION OF AUDIT & CONTROL
95 FRANKLIN STREET
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November 6, 2026

Erie County Legislature
92 Franklin Street, Fourth Floor
Buffalo, New York 14202

Dear Honorable Members:

In 2023, the Erie County Comptroller's Office, Division of Audit & Control initiated a regular Monitoring Program of Erie County Cultural Funding Grants. The Erie County Cultural Funding program provides annual grants to non-profit arts and cultural organizations operating within the County. County funds are intended to be limited in their use to current operating expenses including salaries, program costs, fringe benefits, rents, utilities, office supplies, and equipment. Grant funds may not be used for or applied towards capital projects or physical improvements of buildings or facilities, nor as a revenue offset against accounts receivable. No funds received shall be used for any services provided or activities performed outside Erie County. The County's Department of Environment and Planning executes contracts with organizations and is the primary agency charged with monitoring.

OBJECTIVE

The objective of the Cultural Funding Grant Monitoring Program is to verify that grant recipients utilize County funds in accordance with the terms and conditions of their grant agreements with the County. To support this objective, the Comptroller's Office selects a sample of organizations annually to review financial records, substantiate the proper use of County grant funds, verify that required IRS Form 990-series information returns and New York State Form CHAR500 were completed, and assess board oversight for the fiscal years under review.

SCOPE AND METHODOLOGY

Approximately 120 different organizations receive funding annually from Erie County. The Comptroller's Cultural Funding Grant Monitoring Program is intended to review organizations that received a minimum of $10,000 in funding during any of the two prior years. For this round of review, covering fiscal years 2023 and 2024, approximately 15 agencies were identified for examination.

NUSANTARA ARTS INC.

BACKGROUND

Brief History

Nusantara Arts Inc. (NAI) grew out of the Buffalo Gamelan Club, an informal group established in 2016. The organization was formed to build upon the club's success and expand opportunities for the community to engage with Indonesian arts and culture.

The Buffalo Gamelan Club grew in size and gained recognition within the community, presenting performances at Kleinhans Music Hall, Artpark, and numerous other venues. The club also provided instruction to hundreds of students throughout Buffalo. As performances and classes increased, the organization became increasingly reliant on volunteers to support its activities.

In response to this growth, the club's founder, Matt Dunning, began the process of establishing a nonprofit organization in spring 2019. Nusantara Arts Inc. subsequently received 501(c)(3) tax-exempt status May of 2019.

Mission Statement

Nusantara Arts' mission is to invite the community to experience the diverse traditions of Indonesian music and art. The name "Nusantara" is an ancient Javanese term referring to what is now known as Indonesia. The organization draws a parallel between this diverse archipelago and Buffalo, which it views as a community made up of many different cultures, artistic traditions, and perspectives. Nusantara Arts embraces this diversity and recognizes that the variety of cultural experiences and ways of life within the community contributes to a stronger and more vibrant cultural landscape.

Community Served

Nusantara Arts primarily serves audiences and program participants in Erie County, with additional reach at the state, federal, and international levels. Based on information provided by NAI, the organization estimated that its programs reached approximately 24,000 individuals annually during the period reviewed. The estimate was based on program participation records, ticket sales, and audience estimates for larger free events.

NAI reaches its audience through a variety of marketing and communication channels, including social media, direct mail, email, posters, online publications, newsletters, and calendar listings.

CFG Grant Award History

Nusantara Arts Inc. received Cultural Funding Grants (CFG) totaling:

- $ 5,756.00 in 2023.
- $11,800.00 in 2024.

FINANCIAL ANALYSIS

Revenue Sources

According to Nusantara Arts Inc.'s IRS Forms 990-EZ, total revenue increased from $163,191 in 2023 to $188,033 in 2024.

Contributions, gifts, grants, and similar amounts represented the organization's largest source of revenue, accounting for:

- 76.64% in 2023
- 86.18% in 2024

Program service revenue was the second-largest revenue source in both years.

Erie County Cultural Funding Grant awards totaled $5,756 in 2023 and $11,800 in 2024, representing approximately:

- 3.53% in 2023
- 6.28% in 2024

The organization's reliance on contributions and grants increased during the review period, while program service revenue declined. Although County funding represented a relatively small portion of total revenue, the concentration of revenue from contributed support highlights the importance of maintaining diversified funding sources.

NAI reported an operating deficit of $12,945 in 2023 and a surplus of $5,631 in 2024, based on revenue and expenses reported on its Forms 990-EZ.

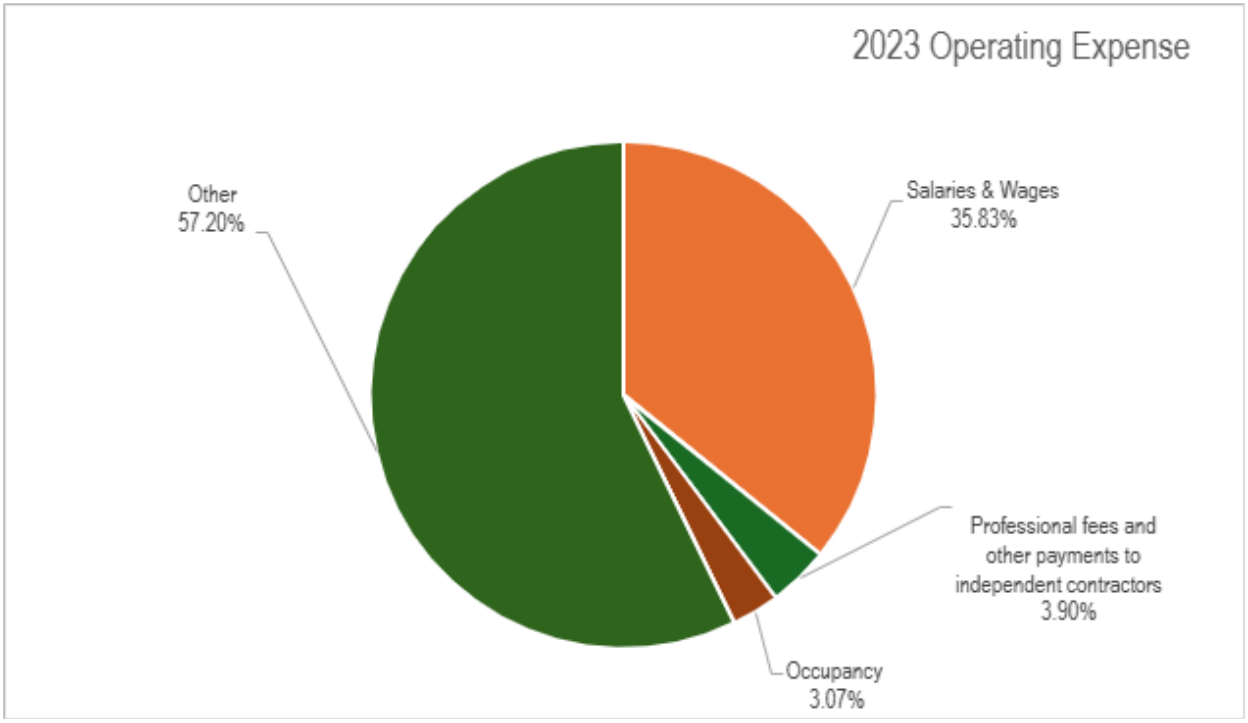
Operating Expenses

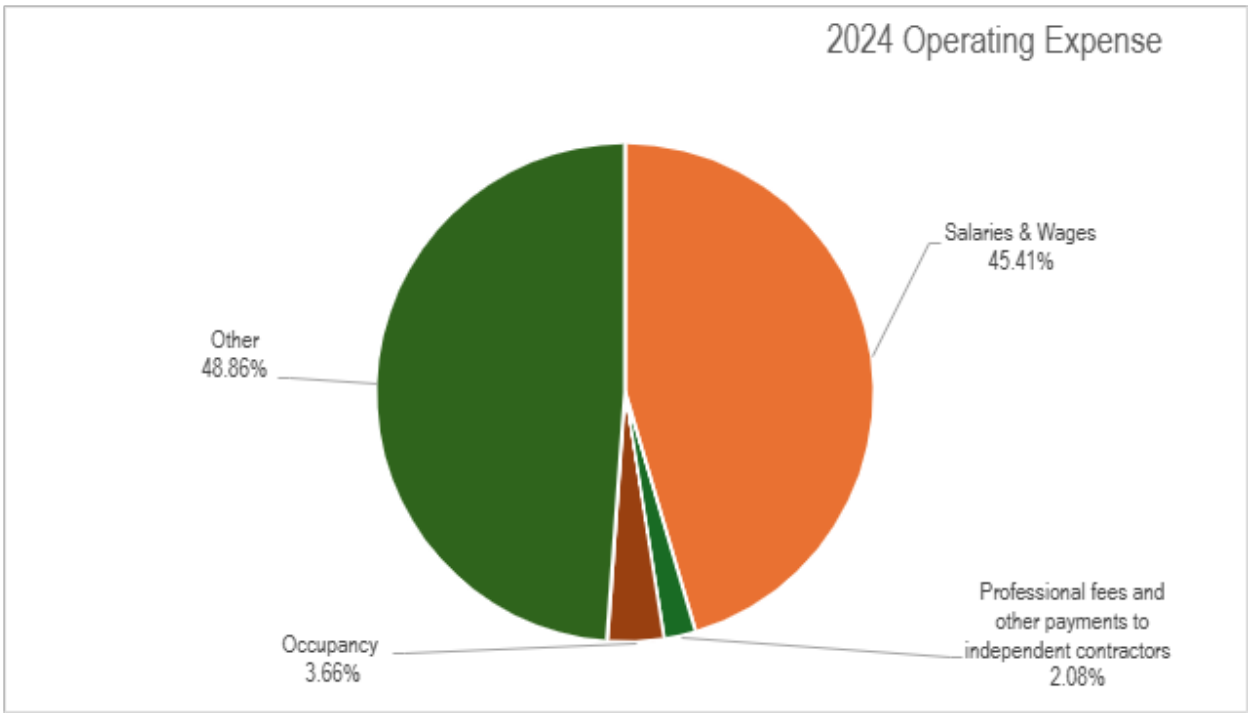
Total operating expenses for NAI remained relatively stable between the two years under review with a slight increase in 2024. Other operating expenses including advertising & promotion, office expenses, travel, insurance, artist fees, video recording, supplies, and instructors' fees, represented the largest category of operating expenses in both years. Salaries and wages represented the organization’s second-largest expense category in both years.

Cultural grant funding requests are evaluated against total operating expenses, net of depreciation, with awards not to exceed 20% of that amount, as recommended by the grant program.

Based on this methodology, CFG funding provided to NAI represented the following percentages of net operating expenses:

- 3.46% in 2023.
- 6.89% in 2024.


2023 Operating Expense
Other
57.20%
Salaries & Wages
35.83%
Professional fees and other payments to independent contractors
3.90%
Occupancy
3.07%


2024 Operating Expense
Salaries & Wages
45.41%
Other
48.86%
Professional fees and other payments to independent contractors
2.08%
Occupancy
3.66%

OBSERVATIONS & RECOMMENDATIONS

Review of Credit and Debit Card Transactions & Bank Statements

The Auditor examined a sample of six credit card transactions and 57 debit card transactions identified on the organization's bank statements. Supporting documentation was provided for all six credit card transactions and 31 of the 57 debit card transactions. Receipts or invoices were not provided for the remaining 26 debit card transactions (45.6%), although the Executive Director (Director) provided explanations regarding their business purpose. The Auditor also noted that NAI did not have a formal credit card or debit card policy. According to the Director, a credit card policy was being developed.

The absence of formally adopted financial policies, combined with inconsistent retention of supporting documentation, weakens internal controls and limits the organization's ability to demonstrate that expenditures were appropriate, authorized, and incurred for legitimate organizational purposes.

Recommendation

NAI should establish and consistently apply expenditure documentation requirements for all organizational transactions. Supporting records should identify the date, amount, vendor or recipient, business purpose, and evidence of authorization.

When original documentation is unavailable, management should retain a written explanation and available alternative evidence, subject to documented independent review and approval.

These requirements should be incorporated into the Board-adopted financial policies discussed under Governance and Policy Review.

General Ledger Review

The Auditor examined a sample of 18 transactions involving the purchase of Balinese instruments, leadership payroll payments, staff mileage, travel reimbursements, and entertainment expenses to determine whether the expenditures were adequately supported and incurred for legitimate organizational purposes.

Supporting documentation was provided for 11 of the 18 transactions tested. Documentation was not provided for the remaining seven transactions (38.9%), although the Director provided explanations regarding their business purpose and relationship with the organization.

Consistent with the debit card testing, these results indicate that supporting documentation was not consistently maintained, limiting the organization's ability to demonstrate that expenditures were appropriate and authorized.

Recommendation

NAI should apply the expenditure documentation, authorization, and independent review procedures recommended in the preceding section to all general ledger transactions.

Use of CFG Funds

CFG funds were used to support general operating expenses, including staff salaries, rent, insurance, legal and professional services, tax preparation, financial statement review, and other program-related expenses.

Beginning in 2024, Erie County required grant recipients to either maintain CFG funds in a separate bank account or demonstrate the ability to adequately account for the funds within their existing financial systems. Based on the procedures performed and documentation reviewed, NAI adequately supported the use of the County grant funds tested, with no exceptions identified.

The Cultural Service Contract also requires acknowledgment of Erie County as a sponsor through specified organizational communications and program materials. The Auditor verified that Erie County was acknowledged as a sponsor on NAI's website.

Payroll & Executive Compensation & Form 1099 Analysis

The Auditor reviewed the Director's compensation during the review period and identified an average annual salary increase of approximately 7.89%. Documentation examined indicated that the salary adjustments were reviewed and approved by the Board of Directors, with no exceptions identified in the approvals reviewed.

The Auditor also compared Forms 1099 issued during the review period with payments recorded in NAI's general ledger. The review identified payments to two individuals in 2023, each totaling at least $600, for which the Auditor could not verify that the applicable Forms 1099 had been issued.

The Director acknowledged the potential reporting omissions and indicated that NAI would consult with its CPA to determine whether the payments were subject to IRS information reporting requirements and take corrective action, as appropriate.

Recommendation

NAI should consult with its CPA to determine whether the identified payments required information returns and submit any outstanding Forms 1099, as applicable.

NAI should also establish procedures to identify reportable payments, maintain required taxpayer information, and ensure the accurate and timely filing of information returns.

Governance & Policy Review

Nusantara Arts Inc. is governed by a 10-member Board of Directors, with directors generally limited to two consecutive three-year terms.

During the review period, NAI did not have formally adopted written policies governing purchasing, credit and debit card use, expense reimbursement, transaction authorization, or segregation of financial responsibilities.

The Auditor identified a concentration of financial responsibilities assigned to the Director, who maintains sole access to the organization's credit and debit cards and performs most bookkeeping, purchasing, invoice processing, and payment-related functions, with occasional assistance from a part-time bookkeeper. Responsibilities for depositing funds and recording transactions were not adequately segregated.

Although certain activities may have been subject to informal oversight, the records reviewed did not establish that independent examination of financial transactions, bank statements, and supporting documentation was consistently performed.

During the site visit, the Auditor discussed these control weaknesses with management. Subsequently, NAI adopted Procurement Policy on 09/24/2026. The Director also indicated that a credit card policy was being developed.

Recommendation

NAI's Board of Directors should formally adopt and implement written financial policies establishing clear requirements for purchasing, expenditure authorization, card use, reimbursement, record retention, and financial oversight.

Recognizing the organization's limited staffing, complete segregation of financial responsibilities may not be practical. Accordingly, NAI should establish compensating controls requiring the Board Treasurer or another designated Board member independent of the Director to periodically review bank and credit card statements, reconciliations, and supporting documentation.

These reviews should be documented, including the date, reviewer, transactions examined, and resolution of any identified discrepancies. Attention should be given to transactions initiated or approved by the Director.

Additional Observations — Restricted Grant Accounting and International Cash Expenditures

The Director traveled to Indonesia from January 11, 2023, through March 11, 2023, under the Cullen Professional Development Program sponsored by the Cullen Foundation. Although this program was funded separately from Erie County Cultural Funding Grants and was outside the scope of the County grant monitoring review, NAI maintained funds from multiple grant sources in a common bank account and did not separately identify restricted grant activity in its general ledger. Consequently, the Auditor's transaction sample included certain Cullen program expenditures.

The Cullen Foundation grant agreement restricted the use of funds to specified program activities. However, NAI did not maintain separate general ledger accounts or other accounting classifications sufficient to readily identify and reconcile the related grant revenue and expenditures.

The Auditor identified 32 ATM cash withdrawals that management attributed to the Indonesia trip. Original receipts were unavailable. NAI provided alternative documentation, including photographs from the trip and an expense report describing activities and expenditures. However, these records did not provide sufficient information to independently substantiate the amounts paid, recipients, and business purposes of the individual transactions.

NAI subsequently provided an attestation dated September 8, 2026, signed by organizational officers and Board representatives, explaining the cash-based nature of certain transactions in Indonesia. While the attestation provided context for the use of cash, it was prepared retrospectively and did not independently substantiate the individual expenditures associated with the withdrawals.
Accordingly, the Auditor could not independently determine how the withdrawn funds were expended or whether the individual transactions were consistent with the Cullen Foundation grant restrictions.

These observations demonstrate weaknesses in restricted grant accounting and expenditure documentation. Although the Cullen Foundation grant program was outside the scope of the County grant monitoring review, the accounting practices identified are relevant to NAI's overall financial controls and its ability to separately account for funding sources.

Recommendation

NAI should establish accounting procedures to separately identify restricted grant revenue and expenditures through unique general ledger accounts, project codes, or equivalent classifications.

For cash-based expenditures, NAI should maintain transaction logs identifying the date, amount, recipient, and business purpose; obtain receipts or alternative acknowledgments when practical; document applicable currency exchange rates; and reconcile cash advances and withdrawals to expenditures and remaining balances.

Grant expenditures should be periodically reconciled to approved budgets and applicable grant agreements, with documented independent review and approval.

CONCLUSION

Based on the procedures performed and documentation reviewed, Nusantara Arts Inc. adequately supported the use of Erie County Cultural Funding Grant funds for eligible operating expenses in the transactions examined. No exceptions involving the use of County grant funds were identified in the sample reviewed. NAI also filed IRS Forms 990-EZ and New York State CHAR500 for 2023 and 2024.

However, the review identified weaknesses in the organization's financial control environment, including inconsistent retention of supporting documentation, the absence of formally adopted financial policies, inadequate segregation of financial responsibilities, and insufficient evidence of independent financial oversight.

Documentation deficiencies were identified in selected debit card and general ledger transactions, as well as cash expenditures associated with a separately funded program. The review also identified two payments for which the Auditor could not verify compliance with applicable IRS information reporting requirements. Management indicated that it would consult with its CPA and take corrective action, as appropriate.

Although no exceptions involving the use of County grant funds were identified in the transactions tested, the control weaknesses observed increase the risk that errors, unauthorized expenditures, or inappropriate transactions may not be detected timely.

Formal adoption of financial policies, consistent expenditure documentation, improved restricted grant accounting, and documented independent oversight would strengthen NAI's financial accountability and internal control environment.

APPENDIX

General Governance and Compliance Guidance for Non-Profit Organizations

Strong financial management depends not only on the integrity of staff and board members, but on the existence of clear, board-approved policies that establish expectations, define responsibilities, and provide a framework for accountability.

This appendix contains general reference information compiled from publicly available federal and New York State sources. It is provided for educational purposes only and is not part of the audit criteria applied in this review unless specifically referenced in the report body. It should not be interpreted as legal, tax, or accounting advice.

1. Board Oversight

1a. Board Oversight Responsibilities

Responsibility	Description	Purpose / Risk Mitigated	Applicable IRC Reference
Monitor Required Filings	Ensure timely submission of all required federal and NYS filings (e.g., Form 990, CHAR500)	Prevents penalties, loss of good standing, and revocation of tax-exempt status	IRC §6033; IRC §6033(j)
Approve Financial Policies	Review and approve key financial and governance policies	Establishes accountability and governance framework	IRC §501(c)(3)
Oversight of Internal Controls	Ensure appropriate financial controls are implemented and functioning	Reduces risk of fraud, waste, and misuse of funds	IRC §501(c)(3); IRC §4958
Compliance Monitoring	Periodically review compliance with regulatory and grant requirements	Ensures ongoing adherence to laws and funding conditions	IRC §6033
Documentation of Oversight	Maintain board minutes documenting financial oversight and decisions	Provides evidence of due diligence and governance	IRC §6001

1b. Key Governance and Financial Policies

Adopting written policies is a necessary first step, but policies are only effective when they are communicated to staff, consistently applied, and reinforced through regular board review. Boards are encouraged to include a policy review as a standing item on their annual meeting agenda.

Policy Area	Purpose and Key Elements
Procurement and Purchasing	Governs purchasing procedures, vendor selection, competitive bidding thresholds, and approval authority. Includes provisions for sole-source and emergency procurements.
Credit Card	Typically defines authorized users, allowable expenses, and documentation requirements. Requires timely submission of receipts and supervisor or board review of reconciliations.
Travel, Meals & Entertainment Expense Reimbursement	Outlines how an organization manages, monitors, and reimburses costs incurred by employees while conducting business away from their usual workplace or entertaining clients. It usually defines what expenses are reimbursable, setting spending limits, and establishing the procedures for reporting and approval
Cash Handling and Bank Accounts	Covers the receipt, deposit, and disbursement of funds. Establishes segregation of duties, authorized signatories, and monthly reconciliation requirements.
Record Retention	Establishes minimum retention periods for financial records, contracts, invoices, and supporting documentation, consistent with IRS, New York State, and applicable grant requirements.
Conflict of Interest and Related-Party Transactions	Requires annual disclosure of potential conflicts by board members and staff. Prohibits participation in decisions where a personal or financial interest may compromise organizational integrity.

Policy Area	Purpose and Key Elements
Whistleblower and Fraud Reporting	Provides a mechanism for reporting suspected fraud, waste, or misuse of funds. Prohibits retaliation against individuals who report concerns in good faith.
Internal Controls and Compliance	Defines roles and responsibilities for financial oversight, budgeting, and reporting. Establishes procedures for reviewing and approving transactions, reconciliations, and financial statements. Establishes a framework to ensure compliance with adopted policies and provides for corrective action when deficiencies are identified.

1c. Key Filing Deadlines

Timely filing of required forms is essential to maintaining compliance.

Federal Filing Requirements

Form	Purpose	Deadline
Form 990 / 990-EZ / 990-N	Annual informational return	15th day of the 5th month after fiscal year-end
Form 990-T	Reports unrelated business income (UBIT)	Same as Form 990
Form 941	Quarterly payroll reporting	End of month following quarter
Form W-2	Employee wages	January 31
Form 1099-NEC	Independent contractors	January 31

New York State Filing Requirements

Form	Agency	Purpose	Deadline
CHAR500	NYS Charities Bureau	Annual financial report	4.5 months after fiscal year-end
CHAR410	NYS Charities Bureau	Registration (if applicable)	As required
CT-13 / CT-13-A	NYS Dept. of Taxation and Finance	State exempt organization filing	4.5 months after fiscal year-end
NYS-45	NYS Dept. of Taxation and Finance	Quarterly payroll reporting	End of month following quarter

Filing extensions may be available depending on filing type.

Key New York-Specific Considerations

Organizations registered with the Charities Bureau must file Form CHAR500 annually, even if no financial activity occurred.

The CHAR500 must include:

- A copy of the organization's IRS Form 990
    - Required financial statements (reviewed or audited, depending on revenue thresholds)
- Failure to file may result in:
    - Loss of registration status
    - Financial penalties
    - Restrictions on fundraising activities within New York State
- Organizations should track both federal and state deadlines, as they may differ in requirements and extensions.

2. Meals, Entertainment & Travel Expense Guidance

Non-profit organizations must ensure that all expenditures further the organization's mission and comply with applicable tax rules and internal policies.

General Principles:

- Expenses must be reasonable, necessary, and directly related to the organization's exempt purpose.
- All expenses must be supported by adequate documentation, including itemized receipts and a clear business purpose.
- Policies should clearly distinguish between allowable and non-allowable expenses.

Category	Guidance / Standard
General Principle & Governing Guidance	Expenses must further the organization's exempt purpose, be reasonable, necessary, and properly documented. Must avoid private benefit. Follow standards from the Internal Revenue Service and apply an accountable plan framework.
Travel – Allowable	Conferences, training, program delivery, grant activities, and meetings with funders or stakeholders.
Travel – Reasonableness	Airfare (economy), lodging (moderate), meals (within per diem), transportation (cost-effective). Use General Services Administration per diem as a benchmark.
Travel – Documentation	Dates, location, business purpose, itemized receipts, proof of payment, agendas, mileage logs (if applicable).
Travel – Best Practices	Pre-approval required, written policy, spending limits, consistent reimbursement method (per diem or actual), timely submission (e.g., 30 days).
Meals & Entertainment – General Rule	Meals & Entertainment expenses should be supported by a documented business or program purpose and reviewed for reasonableness.
Meals & Entertainment – Allowable (Limited)	Modest meals with donors/partners, board meetings, or fundraising-related events tied to mission.
Entertainment – Unallowable	Personal celebrations, guest expenses without business purpose, or excessive hospitality expenses may present heightened compliance risk.
Meals & Entertainment – Documentation	Names and affiliations of attendees, business purpose, itemized receipts, date/location, explanation of mission relevance, Agendas, meeting notices, invitations or program materials help substantiate the business purpose and measurable outcomes (if applicable)
No Private Inurement/Excess Benefit	Expenses must not provide disproportionate personal benefit to insiders (officers, directors, key employees). Violations may trigger penalties under Internal Revenue Code.
Accountable Plan Requirements	Must meet: (1) business connection, (2) substantiation, and (3) return of excess reimbursements. Otherwise, it may be treated as taxable wages.
Internal Controls (approval & authorization)	Segregation of duties, independent review (especially executives), board oversight, approval thresholds, periodic audits.
Alcohol (if applicable)	If included in meals or events, consumption must be limited, reasonable, and consistent with policy. Alcohol-related expenditures generally warrant additional documentation and review for allowability under grant terms.
Audit Red Flags	Missing business purpose, no receipts, round-dollar amounts, excessive costs, weekend/holiday expenses without explanation, lack of independent approval.
Policy Requirement	Maintain a formal written T&E policy defining allowable costs, documentation standards, limits, and approval requirements.

Key Notes:

- Meals: Allowable if directly mission-related and properly documented; follow per-meal limits or per diem where possible.
- Entertainment: Generally disallowed unless it directly furthers the mission and is modest; high scrutiny from IRS audits.
- Travel: Must be necessary, reasonable, and supported by receipts and business purpose documentation.

3. Unrelated Business Income (UBIT) Considerations

Unrelated Business Income Tax (UBIT) applies when a tax-exempt organization generates income from activities that are not substantially related to its exempt purpose.

Even when an organization is tax-exempt, it may still be required to pay tax on certain types of income.

Activity	Guidance	Compliance Risk	IRC Reference
Fundraising Events	Occasional events generally not subject to UBIT	Low risk if not regularly carried on	IRC §513(a)
Ongoing Commercial Activity	Regular business activity may generate taxable income	Subject to UBIT and reporting on Form 990-T	IRC §511–514
Alcohol Sales	Regular sales may be considered unrelated business activity	May trigger UBIT and licensing requirements	IRC §513

3a. Key Criteria (All Three Must Apply)

Income is generally subject to UBIT if the activity is:

1. A trade or business - Conducted to generate income from selling goods or services
2. Regularly carried on - Occurs frequently or continuously (similar to a for-profit business)
3. Not substantially related to the organization's mission - Does not directly support the organization's exempt purpose

Generally Subject to UBIT

- Operating a gift shop or café not related to the mission
- Running a bar or regular alcohol sales operation
- Renting out space with services provided (e.g., catering, staffing)
- Selling advertising in newsletters or websites
- Providing paid services unrelated to programs

Generally, NOT Subject to UBIT

- Occasional fundraising events (e.g., annual gala, festival)
- Activities conducted primarily by volunteers
- Sale of donated goods (e.g., thrift stores)
- Income directly related to the mission (e.g., museum admissions, program fees)

3b. Key Compliance Requirements

- Report UBIT on Form 990-T
- Pay applicable federal (and possibly state) taxes
- Track unrelated income and expenses separately

3c. Important Considerations

- Generating some UBIT does not automatically jeopardize tax-exempt status
- However, excessive unrelated activity may raise concerns with the IRS
- Proper classification and documentation are essential

Simple Rule of Thumb
If the activity looks like a regular business and is not tied to your mission, it may be subject to UBIT

4. Alcohol Sales by Non-Profit Organizations: IRC §513

Non-profit organizations may sell alcohol at events provided they obtain appropriate state permits, ensure the activity is occasional and fundraising-related, maintain adequate documentation, and implement appropriate internal controls. Ongoing or unrelated alcohol sales may trigger tax liabilities and additional regulatory requirements. Organizations should also review grant agreements, as some funding sources prohibit alcohol-related expenditures regardless of tax treatment.

Category	Requirement / Guidance	Reference / Notes
Licensing & Permits	Obtain appropriate NYS permit prior to event: Temporary Beer, Wine & Cider Permit for short-term events; Catering Permit or On-Premises License for regular sales	New York State Liquor Authority; local municipality approvals may also be required
Eligible Activities	Occasional fundraising events are generally exempt from UBIT; recurring or regular sales may trigger UBIT	IRC §511–514 (UBIT); §513 (unrelated trade/business)
Purchasing & Vendor Compliance	Alcohol must be purchased from licensed distributors; age restrictions (21+) enforced	NYSLA regulations
Internal Controls	Board-approved policy, pre-approval of events, segregation of duties, controlled sales or cashless systems, inventory tracking	Best practices for audit and compliance
Documentation	Maintain permits, invoices, contracts, event purpose, attendee list, and revenue/expense records	Supports compliance and audit trail
Risks of Non-Compliance	Fines, permit revocation, UBIT exposure, reputational risk, grant compliance issues	NYSLA and IRS enforcement

4a. ***State and Local Licensing (New York State)***
In New York, alcohol sales are regulated by the New York State Liquor Authority.

Non-profits must obtain appropriate permits before selling alcohol:

- Temporary Beer, Wine & Cider Permit
- For one-day or short-term events
- Most common for fundraisers, festivals, and galas
- Catering Permit or On-Premises License (if applicable)
- Required if alcohol is sold regularly or through a contracted vendor Key Requirements:
- Permit must be obtained in advance of the event
- Alcohol must be purchased from licensed distributors

Must comply with:

- Age restrictions (21+)
- Responsible service requirements
- Local municipality approvals may also be required

4b***. Federal Tax Considerations (IRS / UBIT)***
Alcohol sales may trigger Unrelated Business Income Tax (UBIT) depending on how the activity is conducted.

Generally, NOT subject to UBIT:

- Occasional fundraising events (e.g., annual gala, festival)
- Activities not “regularly carried on”

May be subject to UBIT:

- Ongoing or recurring alcohol sales (e.g., operating a bar)
- Activities not substantially related to the organization’s exempt purpose

4c***. Financial Controls and Governance***
Even when permitted, alcohol sales require strong internal controls to ensure compliance and accountability.

Recommended Controls:

- Board-approved policy addressing alcohol sales and use
- Pre-approval of events involving alcohol
- Segregation of duties (sales, cash handling, reconciliation)
- Use of cashless or controlled sales systems where possible
- Inventory tracking (to prevent loss or misuse)

4d. ***Documentation Requirements***

Organizations should maintain:

- Copies of permits and licenses
- Vendor invoices (proof alcohol was purchased legally)
- Event records (date, purpose, attendees)
- Revenue and expense tracking specific to the event
- Contracts with caterers or third-party vendors

4e. ***Risk Considerations***

Failure to comply may result in:

- Fines or penalties from the New York State Liquor Authority
- Loss of ability to hold future events
- Exposure to UBIT and IRS scrutiny
- Reputational risk and grant compliance issues

5. Payroll vs. Independent Contractor Guidance for Non-Profit Organizations

Non-profit organizations should classify workers based on the level of control and the nature of the working relationship.

Category	Guidance / Standard
Classification Principle	Based on control, financial dependence, and relationship (IRS common law test, IRC §3121(d)).
Employee (W-2)	Ongoing, supervised, integral to operations; regular hours; organization provides tools, training; paid wages with taxes withheld.
Independent Contractor (1099)	Project-based or specialized service; independent business; controls work method; multiple clients; paid per contract.
Compliance – Employees	Withhold/pay federal income, FICA; file Form W-2, Form 941; comply with wage and hour laws, unemployment insurance.
Compliance – Contractors	Obtain Form W-9; issue Form 1099-NEC for payments ≥ $600; maintain contracts; avoid treating like employees.
Best Practices	Written classification policy; pre-approval of contractors; maintain W-9, contracts, invoices, payments; annual review.
Risks of Misclassification	IRS penalties, back taxes, interest/fines, state labor violations.

5a. Core Principle: Classification Is Based on Control (Not Preference)

The IRS determines whether a worker is an employee or independent contractor based on the degree of control and independence, not what the organization chooses to call them.

Three Key IRS Factors:

- Behavioral Control – Does the organization control how the work is done?
- Financial Control – Are expenses reimbursed? Is payment hourly vs. per project?
- Relationship – Is the work ongoing? Are benefits provided?

5b. When a Worker Should Be on Payroll (W-2 Employee)

A worker should generally be classified as an employee if:

- The organization controls how, when, and where work is performed
- The role is ongoing or integral to operations
- The individual works regular hours or under supervision
- The organization provides tools, equipment or training
- The worker is part of day-to-day operations

Examples:

- Administrative staff
- Program coordinators
- Site managers
- Regular event staff

Best Practice:
If the role looks like a job, functions like a job, and is ongoing → likely should be on payroll

5c. When Independent Contractor (1099) Is Appropriate

A worker may be classified as an independent contractor if:

- They operate an independent business
- They control how the work is performed
- They are hired for a specific project or short-term service
- They use their own tools/equipment
- They work with multiple clients

Examples:

- Guest performers
- Grant writers (project-based)
- Marketing consultants
- IT specialists (contract work)

5d. High-Risk Misclassification Areas (Common Audit Findings)

Non-profits frequently misclassify:

- Workers performing ongoing roles but paid via 1099
- Individuals working set schedules under supervision
- Board members or officers receiving compensation improperly
- "Consultants" who function as staff

Red Flag:
If someone is paid regularly (weekly/monthly) and acts like staff → likely should be W-2

5e. Payroll Compliance Requirements (Employees)

If classified as an employee, the organization must:
Withhold and remit:

- Federal income tax
- Social Security and Medicare (FICA)

Filing requirements:

- Form W-2
- Form 941 (quarterly payroll tax)

Comply with:

- Wage and hour laws
- Unemployment insurance (state)

5f. Independent Contractor Compliance (1099)

For contractors, organizations must:

- Obtain Form W-9 before payment
- Issue Form 1099-NEC for payments ≥ $600
- Maintain contracts defining scope of work
- Avoid treating contractors like employees

5g. Best Practices for Non-Profits

- Governance & Controls
- Adopt a written worker classification policy
- Common to document pre-approval for contractor engagements
- Maintain written contracts for all contractors

Documentation

- W-9 forms
- Contracts
- Invoices
- Payment records
- Periodic Review
    - Review worker classifications annually
    - Reclassify if roles evolve into employee-type positions

When in doubt, seek professional advice or IRS determination through Form SS-8.

5h. Risks of Misclassification

Failure to properly classify workers may result in:

- IRS penalties and back taxes
- Liability for unpaid payroll taxes
- Interest and fines
- Exposure to state labor law violations

Disclaimer

The guidance presented in this appendix reflects generally accepted governance practices and applicable federal and New York State requirements for tax-exempt organizations, including those required to file Form 990. While certain references are derived from provisions of the Internal Revenue Code, this appendix is not intended to represent a comprehensive statement of legal requirements. Not all provisions apply uniformly to every organization. Accordingly, this information is provided for general guidance only, and organizations should consult qualified legal or tax professionals regarding their specific circumstances.

Non-Profit Quick Reference: Tax, Filing, and T&E Guidance (501(c)(3))

1. Board Oversight & Governance

Responsibility	Purpose / Risk Mitigated	IRC Ref.
Monitor Filings	Ensure timely federal/NYS submissions	§6033; §6033(j)
Approve Policies	Establish financial accountability	§501(c)(3)
Oversight of Controls	Prevents fraud, misuse, errors	§501(c)(3); §4958
Compliance Monitoring	Adherence to laws and grants	§6033
Document Oversight	Board minutes as evidence	§6001

2. Filing Deadlines (FY End)

Federal

Form	Purpose	Deadline
990 / 990-EZ / 990-N	Annual return	15th day of 5th month
990-T	Unrelated Business Income (UBIT)	Same as 990
941	Payroll	End of month post quarter
W-2 / 1099-NEC	Employee / Contractor	Jan 31

New York

Form	Agency	Purpose	Deadline
CHAR500	NYS Charities Bureau	Annual financial report	4.5 months after fiscal year-end
CHAR410	NYS Charities Bureau	Registration (if applicable)	As required
CT-13 / CT-13-A	NYS Dept. of Taxation and Finance	State exempt organization filing	4.5 months after fiscal year-end
NYS-45	NYS Dept. of Taxation and Finance	Quarterly payroll reporting	End of month following quarter

3. Alcohol Sales (Events / Fundraisers)

Category	Guidance	Ref / Notes
Licensing	Temporary or catering permit required	NYSLA
Eligible Activities	Occasional fundraising exempt; regular sales may trigger UBIT	§511–514; §513
Controls & Documentation	Board approval, segregation of duties, invoices, attendee list, event purpose	Audit best practice
Risks	Fines, UBIT, permit revocation, reputational risk	NYSLA / IRS enforcement

4. Meals, Entertainment & Travel (T&E)

Category	Guidance / Standard	IRC Ref.
General	Must support exempt purpose; reasonable, necessary; documented	§501(c)(3); §62(a)(2)(A)
Travel	Conferences, training, stakeholder meetings; moderate lodging/transport	GSA per diem benchmark
Meals	Modest, mission-related, board/donor meetings; avoid excess	§274(d)
Entertainment	Generally disallowed unless modest, mission-related	§274; §4958
Documentation	Receipts, date/location, purpose, attendees, agendas, measurable outcomes	§274; §4958
Internal Controls	Pre-approval, segregation of duties, board oversight, periodic audits	§501(c)(3); §4958

5. Unrelated Business Income (UBIT)

Activity	Guidance	IRC Ref.
Occasional Fundraising	Generally, not subject	§513(a)
Regular Commercial Activity	Reportable; may trigger UBIT	§511–514
Alcohol Sales	Regular sales may be taxable	§513

Rule of Thumb: Subject to UBIT if 1) trade/business, 2) regularly carried on, 3) not substantially related to mission.

6. Payroll vs. Independent Contractor

Category	Guidance	IRC Ref.
Employee (W-2)	Ongoing, supervised, integral to operations; taxes withheld	§3121(d); IRS Common Law Test
Contractor (1099)	Project-based, independent, multiple clients; control own work	§3121(d)
Compliance	Employees: W-2, 941, wage laws; Contractors: W-9, 1099-NEC, contract	IRS Publications 15-A, 15-B
Best Practices	Written classification policy, contracts, pre-approval, annual review	IRS guidance
Risk	Misclassification → penalties, back taxes, interest, state labor violations	§3121(d); IRS enforcement