

# CYBERSECURITY AND TAX REPORTING ISSUES FACING NONPROFITS TODAY

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Presented by:

Randy Tanaka, CISSP, EnCE | Eleanor Livingston, CPA, MST



# AGENDA

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About Windes

Business Email Compromise (BEC)

One Big Beautiful Bill Act and Nonprofits

Alternative Investments and Your 990

Compensation

Open Forum

# FIRM PROFILE

## Our Firm

- 100 years of experience in the public accounting practice
- One of the largest CPA firms in California
- 30 partners and more than 250 professionals
- Serving over 4,000 businesses
- Four operating offices across the country

## Nonprofit Practice

- Experts in a broad range of industries, including government and nonprofit
- Provide audit, tax, and advisory services to over 250 nonprofit organizations

## Representative Nonprofit Organization Clients

We are proud to offer a diverse nonprofit practice with extensive experience across all types of nonprofit organizations. Our experience includes, but is not limited to:

- Social Service Organizations of all types
- College Foundations
- Cultural Organizations
- Regional Centers
- Private Schools
- Private Foundations
- Arts & Culture Charities
- Property Management
- Low-Income Housing
- Hospitals and Healthcare Facilities, including Clinics
- Convention and Visitors Bureaus/Business Associations
- Medical Research Organizations



# OUR NONPROFIT GROUP PRACTICE

**Audit and Assurance Practice:** Currently, we are the auditors of record for over 225 nonprofit organizations and 300 tax 990s, and we possess substantial experience in this field.

**OMB Uniform Guidance Experience:** We have a long history of serving organizations with OMB Uniform Guidance audit requirements. For instance, we are currently the auditor of record for **5 of the 21 regional centers** in California, all of which operate under multiple government grant programs. Additionally, we currently perform **50+ audits** under Uniform Guidance with all types of government grants and have a thorough understanding of federal and state program requirements. All of our audit employees receive the appropriate hours of yellow book training to be able to perform yellow book audits.

**Tax Practice:** Our team of tax specialists has tremendous experience in providing tax services to a large number of organizations in California. Our experience includes assisting our nonprofit clients with analyzing and reporting activities that have the potential for being highly scrutinized including, but not limited to:

- Proper reporting of contributions and government grants
- Technology & risk
- Officer compensation
- Sponsorships
- Taxable and nontaxable fringe benefits
- Tax controversy – federal or state audit assistance
- Tax-exempt bond post-issuance compliance
- Organization start-up and reorganization
- Tax and distribution planning for private foundations
- Unrelated business income tax matters



# OUR NONPROFIT GROUP PRACTICE

**Employee Benefit Services Practice:** The Windes Employee Benefit Services group provides complete design, documentation, and administration services for employee benefit plans sponsored by small- to medium-sized businesses including:

- Defined Benefit Pension Plans
- Cash Balance Plans
- Pension, Profit Sharing, and 401(k) Plans
- Cross-Tested Plan Allocations
- Safe-Harbor 401(k) Plans
- 403(b) Plans
- Cafeteria Plans
- Welfare Benefit Plans

**Technology & Risk Services:** Our Technology & Risk Practice utilizes 30+ years of experience auditing clients for cyber, data, and regulatory risk without slowing the business.

- Technology Risk Management
- Data Analytics
- Cyber Risk Assessments
- Data Protection & Privacy Compliance
- Incident Response Planning & Testing
- Financial Services IT Compliance
- Third-party / Vendor Risk Management
- Cloud Risk & Migration Readiness
- Business Continuity & Disaster Recovery Planning



# OUR NONPROFIT PRACTICE LEADERSHIP



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# TEAM QUALIFICATIONS – PROFESSIONAL RESUME

## Randy Tanaka, CISSP, EnCE

*Partner, Audit & Assurance Services  
IT Governance and Risk Management*



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## Range of Experience

Randy joined Windes in 2024 as a partner in the firm's Audit & Assurance Services department. With more than two decades of leadership and execution experience in both mid-tier and Big Four audit and consulting firms, Randy has collaborated with a diverse clientele, from small, privately-owned companies to Fortune 50 multinational corporations. His expertise spans internal and external audits in a broad range of industries.

Specializing in risk assessments, change management controls, ERP implementations, and their associated process flows, Randy identifies and develops scalable process improvement procedures to improve enterprise and operational risk management and fortify risk controls.

Recognized as an IT audit thought leader, Randy provides his clients with actionable insights by utilizing cutting-edge technology and data analytics to optimize processes and minimize risk across multiple areas, including cybersecurity, IT strategy and governance, and IT regulatory and compliance requirements.

## Education

Bachelor of Arts, Economics, California State University, Long Beach  
Certified Information Systems Security Professional (CISSP)  
Encase Certified Examiner (EnCE), Forensics

## Community and Professional Affiliations

*Member, American Institute of Certified Public Accountants  
Member, Information Systems Audit and Controls Association*

# TEAM QUALIFICATIONS – PROFESSIONAL RESUME

## Eleanor Livingston, CPA, MST

*Nonprofit Tax Director  
Nonprofit Tax Services*



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## Range of Experience

Eleanor joined Windes in 2024 as a tax director in the firm's Nonprofit practice. She has over 20 years of accounting experience, focusing on exempt organization taxation. Prior to joining Windes, Eleanor led the Nonprofit tax practices at regional firms in Illinois and Kentucky.

Specializing in strategic tax planning for exempt organizations, Eleanor advises nonprofit clients on all aspects of exempt organization taxation, including applying for exemption, unrelated business income tax, and state registration requirements.

Eleanor is a presenter and trainer on various nonprofit topics and has spoken at seminars for clients and other nonprofit professionals. In addition to exempt organizations, Eleanor's client base has included partnerships, S corporations, and C corporations, as well as clients in the manufacturing, professional services, real estate, and construction sectors.

## Education

Master of Science, Taxation, Grand Valley State University, Grand Rapids, Michigan  
Bachelor of Arts, Accounting, Michigan State University, East Lansing

## Community and Professional Affiliations

*Member, American Institute of Certified Public Accountants  
Member, California Society of Certified Public Accountants  
Treasurer, LouCity and Racing Foundation  
Treasurer, Louisville Academy of Music*

# EMAIL COMPROMISE RISK AND NONPROFITS

# FBI TOP FIVE CYBER ATTACKS

**Cyber attacks according to the latest FBI IC3 Annual Report:** Criminals have moved beyond simple, fake emails to highly surgical, multi-stage operations. The most common tactics currently used include:

1. **Phishing / Spoofing:** Phishing remains the most reported cybercrime to the FBI. These attacks involve deceptive emails, texts, or messages impersonating trusted entities to steal credentials, deploy malware, or initiate fraud. The FBI reports phishing as the #1 attack vector by number of complaints, significantly outpacing all others.
2. **Investment Fraud (Often Crypto-Related):** Investment fraud produced the highest total financial losses of all cybercrimes reported to the FBI. These attacks commonly leverage fake investment platforms, romance scams combined with crypto fraud, and social engineering rather than technical exploits. Cryptocurrency is frequently used to move and launder funds.
3. **Business Email Compromise (BEC):** BEC attacks target organizations by compromising or impersonating legitimate business email accounts to redirect payments or manipulate financial transactions. The FBI consistently ranks BEC as one of the most financially damaging cyber attacks, particularly for businesses, professional services firms, and real estate.
4. **Ransomware:** Ransomware is identified by the FBI as the most pervasive cyber threat to critical infrastructure. These attacks encrypt systems and data, disrupting operations and demanding payment for restoration. While total reported losses appear lower than fraud, the FBI notes that ransomware losses are significantly underreported and include operational downtime and recovery costs not reflected in dollar totals.
5. **Data Breaches / Personal Data Compromise:** Personal data breaches—often resulting from credential theft, malware, or unauthorized access—round out the top five. These incidents frequently act as enablers for other crimes such as identity theft, account takeover, and financial fraud. The FBI reports data breaches as one of the most common cyber threats reported by victims.



# BUSINESS EMAIL COMPROMISE (BEC) OVERVIEW

- **What is BEC?**
- **Why Should I Care?**
- **How Is It Performed?**
- **Nobody Cares About Me**
- **What Can I Do?**



# INTRODUCTION TO BEC

## **Nature of BEC Attacks**

BEC attacks impersonate trusted contacts to deceive employees into financial fraud or data breaches.

## **Financial Impact**

BEC caused over \$55.5 billion in global losses, with \$2.9 billion lost in the US in 2024 alone.

## **Attack Sophistication**

BEC attacks use psychological manipulation and often bypass security filters by mimicking real business communications.

## **Defense Strategies**

User awareness and organizational controls are critical to defending against BEC attacks.



# FINANCIAL AND ATTACK TRENDS

## Rising Financial Losses

Business Email Compromise losses exceeded \$55.5 billion over the past decade, with \$2.9 billion lost in the U.S. in 2023 alone.

## Increasing Attack Frequency

BEC attacks rose by 30% as of March 2025, accounting for 73% of all reported cyber incidents in 2024.

## Prevalence of Phishing

98% of employees face weekly phishing attempts, which serve as common precursors to Business Email Compromise.

## Conversation Hijacking Growth

Conversation hijacking in BEC messages increased by 70%, with 67% originating from free webmail accounts.



# COMMON METHODS

## **CEO or Executive Impersonation**

Attackers impersonate executives to request urgent wire transfers or sensitive data, pressuring to bypass verification.

## **Vendor Email Compromise**

Fraudulent invoice changes or payment instructions sent from spoofed or compromised supplier email accounts.

## **Account Takeovers**

Attackers use stolen credentials to send convincing messages that bypass technical and human detection.

## **Attorney Impersonation**

Impersonators invoke legal urgency and confidentiality to discourage verification and prompt quick compliance.

## **Data Theft Focus**

Some BEC attacks prioritize stealing sensitive internal data for monetization or secondary attacks.



# REAL-WORLD BEC EXAMPLES

## Major Corporate BEC Incident

Large companies lost millions due to fraudulent vendor emails impersonating legitimate suppliers.

## Real Estate Sector Targeting

Real estate accounts for 14% of wire-fraud attempts due to frequent financial transfers and vulnerability.

## Seasonal Personal-to-Business Attacks

Attackers exploit vacation staffing gaps, increasing personal-to-business email compromise attempts.

## Conversation Hijacking Surge

A 70% increase in attackers infiltrating email threads reduces user skepticism and increases legitimacy.



# MITIGATION AND RESPONSE STRATEGIES

## Technical Safeguards

Use multi-factor authentication and email protocols like DMARC, DKIM, and SPF to prevent unauthorized access.

## Process Controls

Implement verbal confirmations and dual approval workflows to reduce financial fraud risks and errors.

## User Education

Conduct regular phishing simulations and role-specific security training to enhance employee vigilance.

## Incident Response

Report incidents immediately to recovery teams to increase chances of freezing stolen funds.



**QUESTIONS?**

**ONE BIG BEAUTIFUL BILL ACT  
AND NONPROFITS**

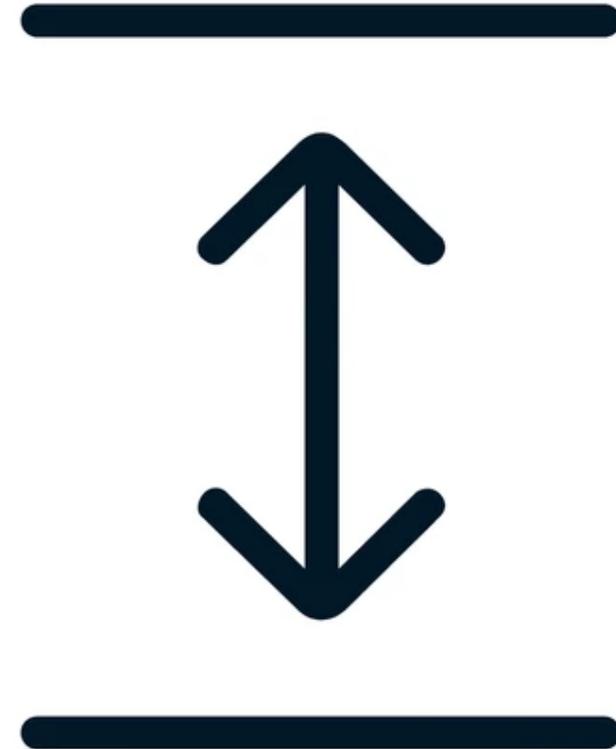
# EXCISE TAX ON EXCESS COMPENSATION

- Changes covered employee from one of top five highest compensated in any year since December 2016 to any employee
  - Compensation of \$1M or more
  - Excess parachute payment



# FUNDRAISING IMPACTS

- **Non-itemizers deduction:** \$1,000 for individuals, \$2,000 for married couples
- **Be prepared for bunching**
  - Itemizers must give more than .5% of adjusted gross income to deduct any charitable giving
  - Corporate giving must be greater than 1% of taxable income



**ALTERNATIVE INVESTMENTS  
AND YOUR 990**

# ALTERNATIVE INVESTMENTS

- **Characteristics**
  - Not publicly traded
  - Most activity doesn't show up on your investment statements
  - Level 3 investments on your audited financials (or frequently called out separately)
- **Predominant types we're seeing**
  - Partnerships – domestic or foreign
  - Passive foreign investment companies



# PARTNERSHIPS

- Tax Information provided via K-1:

651123

Schedule K-1 (Form 1065) 2024  
 Department of the Treasury Internal Revenue Service  
 For calendar year 2024, or tax year

Partner's Share of Income, Deductions, Credits, etc. See separate instructions.

**Part I Information About the Partnership**

A Partnership's employer identification number: 84-1689138

B Partnership's name, address, city, state, and ZIP code: RIDGEWOOD ENERGY Q FUND LLC, C/O RIDGEWOOD ENERGY CORPORATION, 103 FOULK ROAD, WILMINGTON, DE 19803

C IRS center where partnership filed return: E-FILE

D  Check if this is a publicly traded partnership (PTP)

**Part II Information About the Partner**

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.)

F Name, address, city, state, and ZIP code for partner entered in E. See instructions.

G  General partner or LLC member-manager  Limited partner or other LLC member

H1  Domestic partner  Foreign partner

H2  If the partner is a disregarded entity (DE), enter the partner's:

TIN \_\_\_\_\_ Name \_\_\_\_\_

I1 What type of entity is this partner? EXEMPT ORGANIZATION

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

**Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items**

1 Ordinary business income (loss)	821.	14 Self-employment earnings (loss)	
2 Net rental real estate income (loss)		15 Credits	
3 Other net rental income (loss)		16 Schedule K-3 is attached if checked <input type="checkbox"/>	
4a Guaranteed payments for services		17 Alternative min tax (AMT) items	D 1,041.
4b Guaranteed payments for capital		18 Tax-exempt income and nondeductible expenses	
4c Total guaranteed payments		E	220.
5 Interest income	46.	19 Distributions	A 791.
6a Ordinary dividends		20 Other information	A 46.
6b Qualified dividends		T *	148.
6c Dividend equivalents		V	821.
7 Royalties		Z *	STMT
8 Net short-term capital gain (loss)		AG *	1,043.
9a Net long-term capital gain (loss)		AJ *	STMT
9b Collectibles (28%) gain (loss)		9c Unrecaptured section 1250 gain	

Box 1 ordinary income generally taxable as UBIT

Footnotes contain additional details, especially regarding foreign reporting

# PASSIVE FOREIGN INVESTMENT COMPANIES (PFICs)

- **Two types of funds:**
  - One loaded with debt designed for non-exempt investors
  - One with no debt designed for exempt investors
- **Activity that gets booked:**
  - Distributions (non-taxable as long as no debt)
  - Redemptions
- **Because of the tax status, annual tax reporting by the PFIC isn't required**
  - Fund will provide an annual statement on request



# 990 REPORTING

- Schedule F Foreign Investments:

<b>SCHEDULE F</b> <b>(Form 990)</b> <small>(Rev. December 2024)          Department of the Treasury          Internal Revenue Service</small>	<b>Statement of Activities Outside the United States</b> <b>Complete if the organization answered "Yes" on Form 990, Part IV, line 14b, 15, or 16.</b> <b>Attach to Form 990.</b> <b>Go to <a href="http://www.irs.gov/Form990">www.irs.gov/Form990</a> for instructions and the latest information.</b>	OMB No. 1545-0047 <div style="border: 1px solid black; padding: 2px; text-align: center;"> <b>Open to Public Inspection</b> </div>			
Name of the organization		Employer identification number			
<b>Part I</b> <b>General Information on Activities Outside the United States.</b> Complete if the organization answered "Yes" on Form 990, Part IV, line 14b.					
<b>1 For grantmakers.</b> Does the organization maintain records to substantiate the amount of its grants and other assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? ..... <b>Yes</b> <b>No</b>					
<b>2 For grantmakers.</b> Describe in Part V the organization's procedures for monitoring the use of its grants and other assistance outside the United States.					
<b>3 Activities per Region.</b> (The following Part I, line 3 table can be duplicated if additional space is needed.)					
(a) Region	(b) Number of offices in the region	(c) Number of employees, agents, and independent contractors in the region	(d) Activities conducted in the region (by type) (such as, fundraising, program services, investments, grants to recipients located in the region)	(e) If activity listed in (d) is a program service, describe specific type of service(s) in the region	(f) Total expenditures for and investments in the region
NORTH AMERICA - CANADA AND MEXICO, BUT NOT THE UNITED STATES	0	0	PROGRAM SERVICES	TRAVEL EXPENSE	1,302.
CENTRAL AMERICA AND THE CARIBBEAN - ANTIGUA & BARBUDA, ARUBA, BAHAMAS	0	0	INVESTMENTS	N/A	19,926,044.
PACIFIC AND THE					

# 990 REPORTING (CONT'D)

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- **Additional Reporting:**
  - Form 926 – Transfers to foreign corporations of more than \$100,000
  - Form 8865 – Transfers to foreign partnerships of more than \$100,000
  - Form 5471 – In rare cases when investment is deemed to be a controlled foreign corporation
  - Form 8621 – If PFIC generates unrelated business income
- **Penalties for missing foreign forms (926,8865,5471) start at \$10,000**
- **Information needed for foreign corporation/partnership transfers:**
  - Name and address of transferee corporation/partnership
  - Percentage of ownership before and after the transfer
  - Foreign law characterization
  - Amount of cash transferred

# UNRELATED BUSINESS INCOME TAX REPORTING

- Need to consider both federal and state reporting requirements
- Not all states tax unrelated business income
- Need to aggregate state activity to determine which states might need filings
- **File to establish losses?**
  - What is the respective state's NOL carryforward rule?
  - Once you file, you file every year until you liquidate the investment or determine it doesn't make sense



# COMPENSATION FOR NONPROFITS

# REBUTTABLE PRESUMPTION AND REASONABLENESS



**Steps required so compensation paid to officers, directors, trustees, and key employees is deemed reasonable by definition include the following:**



Compensation agreement is approved in advance by an authorized body of the exempt organization, composed of individuals who do not have a conflict of interest



Prior to determining compensation, the authorized body obtained and relied upon appropriate data as to comparability



The authorized body adequately and timely documented the basis for its determination concurrently with making that determination

Terms of the transaction  
Date of approval  
Members present and vote on the transaction  
Comparability data obtained and relied on

# 990 – PART VII – COMPENSATION OF OFFICERS, DIRECTORS, TRUSTEES, KEY EMPLOYEES, HIGHEST COMPENSATED EMPLOYEES, AND INDEPENDENT CONTRACTORS

Form 990 (2024)

Page 7

## Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response or note to any line in this Part VII

### Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

**1a** Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See the instructions for definition of "key employee."
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (box 5 of Form W-2, box 6 of Form 1099-MISC, and/or box 1 of Form 1099-NEC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations. See the instructions for the order in which to list the persons above.

Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee.

(A) Name and title	(B) Average hours per week (list any hours for related organizations below line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC/1099-NEC)	(E) Reportable compensation from related organizations (W-2/1099-MISC/1099-NEC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(1) CEO	40.00			X			188,971.	0.	37,929.	
(2) DIRECTOR OF DEVELOPMENT	40.00				X		126,321.	0.	27,009.	
(3) RN	40.00				X		109,358.	0.	14,198.	
(4) RN SUPERVISOR	40.00				X		116,404.	0.	6,984.	
(5) RESIDENTIAL CARE MANAGER	40.00				X		111,340.	0.	9,811.	
(6) RESIDENTIAL CARE MANAGER	40.00				X		109,925.	0.	10,663.	
(7) PRESIDENT	1.00	X		X			0.	0.	0.	
(8) VICE PRESIDENT	1.00	X		X			0.	0.	0.	
(9) SECRETARY	1.00	X		X			0.	0.	0.	
(10) DIRECTOR	1.00	X					0.	0.	0.	
(11)	1.00									

# 990 – WHO TO REPORT ON PART VII

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- Directors/trustees
- Officers – top management official and top financial official in addition to officers specified in by-laws
- **Key employees:**
  - More than \$150,000 in reportable compensation AND
  - Responsible for 10% or more of the organization measured however you want to measure it
- **Highest compensated employees:**
  - Next five highest compensated
  - More than \$100,000 on W-2
  - Neither officers nor key employees
- **Former any of the above if compensation thresholds are met**
  - Officers or key employees > \$100,000
  - Directors and trustees > \$10,000

# 990 – WHAT TO REPORT ON PART VII

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- **Form W-2, Box 1, or Box 5, whichever is larger – or Form 1099-NEC Box 1:**
  - For fiscal year entities, it's the calendar year that ends inside your fiscal year (i.e., 6/30/25 year-end would report 2024 W-2 amounts)
- **Employer contributions to deferred compensation plans – qualified and nonqualified**
- **Other nontaxable benefits:**
  - Both employee pre-tax and employer contributions
  - Health, vision, dental
  - Amounts withheld under cafeteria plans for dependent care, tuition assistance
  - If you aren't sure, ask – we're here to help!

# OTHER ITEMS TO CONSIDER

- Changes in revenue mix that may impact public support
- Fundraising event reporting
- Form 990 board training
- Private foundation distribution planning
- Charitable solicitation registration consulting
- Client accounting services, including fractional CFO
- Tax return services for not-for-profit affiliates (individuals, corporations, trusts, benefit plans)

**Please reach out – we’re here to help you find solutions to your challenges!**



**QUESTIONS?**

# Contact Information



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