

The highest level of education.



**How to Read IRS Form 990 &
Understand its Importance**

What will you learn today?

Today's Objectives:

- Provide a top level explanation of IRS Form 990, to discuss why it is important, and the type of information it conveys and how to interpret for your own needs

Background on the form

- Prior to 2008 the form had 19 pages of instructions, today it has over 300
- Based on how questions (in parts I-XII) are answered, the preparer may need to complete some or all of supplemental schedules A-R
- Form 990 can be found at : <https://www.irs.gov/pub/irs-pdf/f990.pdf>

What are the different Form 990 forms?

Form 990-PF is filed by all 501(c)(3) private foundations and 4947(a)(1) non-exempt charitable trusts. Only those types of exempt organizations use Form 990-PF

Form 990-N ("ePostcard") is an eight-question, electronic return that a nonprofit may file if its gross receipts are normally <\$50,000

Form 990-EZ is a two-page return that a nonprofits may file if its gross receipts for a tax year were <\$200,000 *and* assets were <\$500,000

Form 990 is the "long form" that all other 990 filers must file if their gross receipts were = \$200,000 *or* assets = \$500,000

What is the purpose of the IRS Form 990?

- Primarily tax compliance tool for tax-exempt organizations. Information return only
- Enhance transparency of NPO industry and focus on governance
- Source of information for primarily by the public, state charity regulators, media, politicians and research agencies
- Annual gross receipts >\$200,000 year or Assets >\$500,000
- Review historical Form 990s
- Filed within 5 ½ months of year end
- Two - 3 month extensions available

Where are Form 990 published?

- There are several websites that collect 990 forms.
 - NYS Charities Bureau
 - National Center for Charitable Statistics
 - Guidestar, have to sign up, includes three years, free for most service
 - Foundation Search or Foundation Center often have more than three years of forms, pay to use
 - Request from organization for a nominal fee

Part I: Summary – Snapshot of the Organization

- Mission and Significant Activities
- Board Representation
- Volunteers
- Unrelated Business Income and Other Financial Information

Part II: Signature Block

- Who should be signing?

Authorized signatures

- President
- Vice President
- Treasurer or Assistant Treasurer
- Chief Accounting Officer
- Other Corporate Officers
- Any paid preparer
 - Must include the Tax ID or the PTIN

Check Box: “May the IRS discuss this return with the preparer shown above?”

Part III: Statement of Program Service Accomplishments

- Further detail expanding from Part I – Utilize Schedule O
- Allows organizations the opportunity to sell themselves-PR Opportunity!
- Program accomplishments
- Program revenue and expenses for top three

Part IV: Checklist of Required Schedules

- Lists various questions to determine if additional schedules (A-R) should be attached to the core Form 990
- Political activities, paid fundraiser expenses, gaming revenue, loans made to board members or staff
- Important to read through and review for accuracy to ensure your operations do not put your organization at risk of losing exempt status or excise taxes
- Important to ask your tax professional or look up the question in the instructions if you do not understand

Part IV: Checklist of Required Schedules

Question 25 – Does the organization engage in an "excess benefit transaction with a disqualified person" during the year or in a prior year?

This means there someone in a position with substantial influence to the organization receive excessive compensation or were paid in excess of fair market value for goods or services they provided to the organization.

Part V: Statement Regarding Other IRS Filings and Tax Compliance

- Addresses compliance for other filing requirements
- Payroll Filing
- Unrelated Business Income (More than \$1,000 UBI file a Form 990T)
- Foreign Bank Accounts
- Donor Acknowledgement

Part VI: Governance, Management and Disclosure

- Disclosure of policy and procedures, best practice to be in compliance
- The Board should consider implementation of policies if not in practice
- COI, Board Review of 990, Executive Comp, document retention, whistleblower, board minutes, public inspection of Form 990
- Question 5 – Has the organization become aware during the year of a material diversion of its assets? This would typically involve fraud or embezzlement within the organization.

Part VII and Schedule J: Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

- IRS and Media tend to pay close attention to this schedule
- Ensure there is not excessive compensation to executives, IRS looking out for high gross receipts and low compensation
- All current officers, directors, trustees must be listed
- Schedule J is for a \$150,000 threshold for key employee

Part VIII: Statement of Revenue

- Revenue is segregated between program related revenue – what was the source?
- Unrelated Business Income subject to tax
- Unrelated revenue excluded from tax
- Reader to determine if there is a concentration of revenue stream.
- Program revenue should be compared to total revenue.
- Do they have too much unrelated revenue?

Part IX: Statement of Functional Expenses

Broken out into four categories:

- Total Expenses
- Program service expenses - activities that further the organization's exempt purposes
- Management and general expenses - relate to organization's overall operations, such as: salaries, committee meetings, legal services, liability insurance
- Fundraising expenses - expenses incurred in soliciting cash and non cash contributions, gifts and grants

Part IX: Statement of Functional Expenses

- Should be reviewed to determine how the organization is managed, the “overhead”
- Avoid high fundraising expenses and high executive compensation with comparison of overall expenses
- Ratio of program, management/general, and fundraising expenses should be realistic

Part X: Balance Sheet

- Details the traditional three sections of a Balance Sheet

Assets: Cash, Accounts Receivable, Pledges, Notes, and Loans Receivable, Prepaid Expenses

Liabilities: Accounts Payable, Grants Payable, Deferred Revenue, Tax exempt bond liabilities, Secured mortgages

Net Assets/Fund Balances: Unrestricted/Temporarily restricted net assets, capital stock, retained earnings

- Provides a comparative BOY/EOY snapshot of the organization

Part X: Balance Sheet

- Provide insight to the organization's health
- Compare to the prior year to determine if there are potential cash flow issues
- Notice restrictions on the net assets, board should be familiar with the nature of the restriction

Part XI: Reconciliation of Net Assets

- Reconciles BOY and EOY Net Assets
- Differences represent reporting differences from GAAP and tax.
 - Unrealized gain or loss on investments, prior period adjustments.
- Should ensure differences are reasonable and agree to audit report

Part XII: Financial Statement Reporting

- Basis used to prepare financials (Cash, Accrual, Other)
- Outside party involved (Audit, Review, Compilation)
- Oversight

Schedule A: Public Charity Status and Public Support

- Determines if an exempt organization qualifies
- 509(a)(1) organizations receive most revenue from contributions – Section II
- 509(a)(2) organizations received most revenue from program – Section III
- Required to maintain 33 1/3% public support or pass a facts and circumstance test

Schedule B: Schedule of Contributors

- General Rule, all donors that contributed more than \$5,000 during the year
- There is a test to only include 2% of total contributions
- Not open for public disclosure

Schedule D: Supplemental Financial Statements

- Acts as a supporting schedule for the balance sheet and reconciled the Form 990 to the audit report

Schedule G: Supplemental Information Regarding Fundraising and Gaming

- Support for professional fundraising, special event and gaming activities

Schedule L: Transactions with Interested Persons

- Transactions with interested persons reported here
- Individuals with influence or control over the organization
- Not considered best practice
- At or below fair market value and approved by independent body in accordance with the COI

Schedule R: Related Organizations and Unrelated Partnerships

- Ensure all related organizations are included
- There must be an element of control to be related organization

The Form 990 – What to Take Away

- What picture does the Form 990 paint about your organization?
- Does it reflect a well-governed organization?
- Does it use best practices in governing policies and procedures?
- Does the organization's board have an appropriate level of independence and outside input?

The Form 990 – What to Take Away

- Does your Form show transparency in your Organization?
- Have you considered your audience in preparation of the Form 990?
- Board members should spend the time to review governance section. The Form should be provided prior to board meeting approval.

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