



PREPARING THE FORM 990 FOR NON-PROFIT ORGANIZATIONS

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MEET TODAY'S PRESENTERS...



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WORKSHOP DESCRIPTION

The Form 990 is designed to provide the IRS with an overview of the organization's activities, governance structure and detailed financial information regarding an entity's tax exempt status. This session will include an overview of this form and its requirements, frequently asked questions and issues regarding the preparation of the Form, and will also briefly discuss how nonprofit organizations can utilize the Form 990 to benchmark and measure their performance and governance practices compared to similar organizations.

LEARNING OBJECTIVES

At the conclusion of this session, participants should:

1. Have a basic understanding of the Form 990 requirements
2. Understand some of the intricacies involved and issues encountered in preparing the form
3. Be familiar with best practices related to form preparation and board involvement in reviewing the Form 990 prior to filing
4. Be able to utilize the Form 990 to evaluate their operations through benchmarking and comparison with similar organizations.

INTRODUCTION TO THE FORM 990

The Form 990 serves several key purposes:

- Regulation of tax-exempt sector
- Providing better and more transparent public information about tax-exempt entities
- Can aid organizations in fund-raising and improving their financial management

INTRODUCTION TO THE FORM 990

The Form 990 is a public document! A variety of parties may be interested in your organization's Form 990, such as:

- Donors—current and prospective
- IRS and state tax authorities
- Foundations
- Creditors
- Other non-profits

INTRODUCTION TO THE FORM 990

Three possible versions of the Form 990 to file, depending upon the size of the organization (determined by gross receipts and total assets):

- Form 990-N
- Form 990-EZ
- Form 990

FORM 990 – FILING REQUIREMENTS

Organizations exempt from income tax under IRC section 501(a) and (c) and:

1. Gross receipts of \$50,000 or less—file Form 990-N (electronic notice e-post card)
2. Gross receipts of less than \$200,000 and total assets less than \$500,000—use Form 990-EZ
3. Gross receipts greater than or equal to \$200,000 and total assets greater than or equal to \$500,000 use full Form 990.

FORM 990 – FILING REQUIREMENTS

Due date of return: 15th day of the fifth month after the end of the organization's fiscal year (e.g., May 15th for an organization with a calendar year-end). One automatic six month extension is available.

Failure to file on time: a penalty of \$20/day, not to exceed the lesser of \$10,000 or 5% of the organization's gross receipts for the year, may be assessed unless the organization can show the late filing was due to "reasonable cause."

INTRODUCTION TO THE FORM 990

Basic Structure of the Form 990:

- Twelve page core form and 16 schedules (A to O—which are included if applicable to the organization)
- Part 1 of core form is the Summary; requires a snapshot of information to be included in other parts of the form
- Part IV of core form is a Checklist of Required Schedules; determines which schedules (of the 16) must be filed
- Schedules focus on various areas of particular interest to either the IRS or the general public
- Part VI—includes questions on governance
- Part VII—disclosures about executive compensation
- Part VII – Part XI—financial information

INTRODUCTION TO THE FORM 990

- Please refer to the copy of your organization's Form 990 or a blank Form 990 as we discuss the specific components of the Form
- Polling question: which version of the Form 990 is your organization filing?
A) 990-EZ B) 990

INTRODUCTION TO THE FORM 990

- Part I—Summary
 - a) Line 1—Describes the organization's mission or its most significant activities for the year (organization has the option)
 - b) Line 6—number of volunteers (a good opportunity to show the number of individuals donating time to your organization!)
- Part II—Signature Block—return must be signed by a corporate officer authorized to sign the return (e.g., President, Treasurer, Chief Accounting Officer, etc.)

INTRODUCTION TO THE FORM 990

- Part III—Statement of Program Service Accomplishments
 - a) Very important part of the form!
 - b) Line 1—Description of the organization’s mission as articulated in its mission statement (or as otherwise adopted by its governing body)

INTRODUCTION TO THE FORM 990

- Part III (Continued)
 - c) Line 4a – 4c—all organizations must describe the accomplishments for each of their three largest program services (as measured by total expenses)
 - d) Must include a discussion of the activity’s objective and program service accomplishments (e.g., clients served, number of meals delivered, etc.)
 - d) For each program service, must report related revenues and expenses

INTRODUCTION TO THE FORM 990

- Part IV—Checklist of Required Schedules
- This “checklist” is a series of 38 questions that will indicate whether a specific schedule must be included in the organization’s Form 990
- Includes some important items such as the “Public Support Test” (which will be discussed later) and questions regarding political or lobbying activities, donations of property other than cash, etc.

INTRODUCTION TO THE FORM 990

Areas of focus in the Form 990

- A. Governance (Part VI)—requires information about the governing body, management and policies

Examples: Questions regarding conflict of interest and whistleblower policies, records retention, 990 review before filing, how top officer compensation is determined, etc.

INTRODUCTION TO THE FORM 990

B. Compensation of officers, directors, key employees (Part VII)

1. Must disclose compensation for current officers and directors, key employees (if paid over \$150,000 per year) and 5 highest compensated employees (not included in prior categories) if earning over \$100,000 annually
2. Must include individuals formerly employed by organization during the year if over compensation thresholds

INTRODUCTION TO THE FORM 990

B. Compensation of officers, directors (Cont'd)

3. Must include compensation of top management and financial official (if not included in other disclosures)
4. How is an “officer” defined for Form 990?
5. Must also include average number of hours worked by individuals
6. Instructions to Form 990 provide some detailed compensation examples and how these are to be reported on Form 990

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C. Financial information

Parts VIII—Statement of Revenues

Part IX—Statement of Functional Expenses (Columnar presentation—programs, management and administration and fund-raising)

Part X—Balance Sheet (with Beginning and End of Year amounts)

Part XI—Reconciliation of Net Assets

Part XII—Financial Statements and Reporting (questions on accounting methods, audits, etc.)

INTRODUCTION TO THE FORM 990

D. Primary Schedules of the Form 990

Schedule A—Public Charity Status and Public Support
Test organization must receive at least 33 1/3% of its support from contributions, etc. related to its exempt functions.

INTRODUCTION TO FORM 990

- Schedule B—Contributors donating more than \$5,000 must be separately reported.
- Schedule C—disclose amounts related to political campaigns and lobbying activities. There are limits on amounts that can be used for these activities.

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- Schedule D—Supplemental Financial Statements. Must be filed if the organization has donor advised funds, collections (artwork, historical items, etc.) endowments, and property, plant & equipment.

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- Schedule M—Non-Cash Contributions. Required to report quantity and reported financial statement amount of non-cash contributions received (excluding donated services).
- Schedule O—Supplemental Information to Form 990. Pages for additional explanations, etc. in response to specific questions on the Form 990.

INTRODUCTION TO FORM 990

- Donor contributions must be acknowledged!
- 501-c(3) organization must provide a Contemporaneous Written Acknowledgement (CWA) of cash or non-cash contributions when the amount is \$250 or more.
- Very important that non-profits have specific procedures in place to acknowledge these donations. MUST indicate that no goods or services were received in exchange for donation, OR indicate fair value of goods or services received in exchange for donation.
- Donor must have by filing date of their tax return (their responsibility to obtain).
- Donor cannot claim a tax deduction without it!

INTRODUCTION TO FORM 990

Polling Questions:

A. Does your organization provide a written acknowledgement to donors of their cash or non-cash contributions in excess of \$250?

B. Does the acknowledgement include the fair value of any goods or services provided to the donor as part of their contribution?

FREQUENTLY ASKED QUESTIONS AND ISSUES IN PREPARING THE FORM 990

- Executive Compensation (refer to previous discussion)
- Unrelated Business Taxable Income (UBTI)—if line 7a is checked on Part 1 of the Form 990 must include Form 990-T
- What is UBTI and why is it an issue?

BEST PRACTICES IN PREPARING THE FORM 990

- Have a *qualified* CPA firm prepare your Form 990 (one with non-profit experience)
- Your board should review the return before it is filed; an audit committee or finance committee of the board may review the form in detail before it is presented to the board for final review and approval prior to filing.
- The review should be documented (meeting minutes, etc.)

BEST PRACTICES IN PREPARING THE FORM 990

Polling Question:

Does your organization have the board of directors or a separate committee of the board (e.g., audit or finance committee) review the completed Form 990 before it is filed with the IRS?

BEST PRACTICES IN PREPARING THE FORM 990

- Make sure the amounts reported on the Form 990 for revenues and expenses can be clearly agreed and or reconciled to the organization's accounting records
- Beware of any State reporting requirements for non-profits (may require an audit or other type of accounting service). Example: State of PA requires an audit of an entity's financial statements if their gross annual contributions exceed \$300,000 per year.

USING THE FORM 990 TO “BENCHMARK” YOUR ORGANIZATION

Form 990 contains a wealth of information about an organization's operations and practices, especially related to:

- Program revenues and expenses
- Executive and director compensation
- Governance matters

USING THE FORM 990 TO “BENCHMARK” YOUR ORGANIZATION

Part IX of 990 – Statement of Functional Expenses:

- A “cost accounting” approach to the organization’s total expenses
- Requires an allocation of total expenses to programs, management and administration, and fund-raising categories
- Can be compared to similar organizations
- Comparison between periods can identify trends within the organization

USING THE FORM 990 TO “BENCHMARK” YOUR ORGANIZATION

Executive Compensation:

- Part VII of Form 990 requires disclosure of compensation for “key employees” and five highest paid employees
- Can be compared to similar or other local non-profit organizations; useful in setting compensation, upgrading positions, etc.

USING THE FORM 990 TO “BENCHMARK” YOUR ORGANIZATION

Board and Governance matters:

- Compare board size, officer positions, practices to similar organizations
- Governance policies and practices can also be compared, such as conflict of interest, review of 990 before filing, etc.

USING EXTERNAL SOURCES TO BENCHMARK

- www.guidestar.org
- Provides free access to numerous form 990s (and other information) of non-profit organizations for multiple years
- Can search specific organizations that you want to compare to
- Also offers analyses and comparison services (fee based)

USING EXTERNAL SOURCES TO BENCHMARK

- Compare information on your organization's form 990 to industry suggested "norms" or targets
- Examples:
 - a) Nonprofit Finance Fund
 - b) Washington, D.C. Society of CPAs
 - c) Forbes Fund (based in Pittsburgh, PA!)

NEXT STEPS AFTER BENCHMARKING

- What strengths, problems and/or opportunities have been identified?
- Consider the following action items:
 - a) Further investigation of specific operating costs and expenses
 - b) In-depth review of specific operations
 - c) Evaluation of a potential new revenue stream
 - d) Review of compensation practices
 - e) Review of board size, structure and practices

CAUTIONS ABOUT BENCHMARKING

- Remember the goal of benchmarking is *continuous performance improvement!*
- Interpret results of comparisons realistically and thoughtfully
- Don't overreact; give thorough consideration to significant variances (positive or negative) between your organization and others
- Understand the reasons for the variances and determine how best to utilize the information

SUMMARY AND WRAP-UP

- Form 990 is a requirement for non-profit organizations, often requiring significant amounts of time and effort to complete!
- Utilize the Form 990 for more than meeting a compliance requirement!
- It is a public document that may be used to judge your organization's performance!
- Benchmarking your organization against similar entities can provide useful information to ensure your long-term survival!

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