

BPM

How to Decipher Your Form 990

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Presenters



Elena Serebriakova, CPA, Managing Director, Tax, BPM

Elena has over 12 years in public accounting, with a focus on providing tax services to nonprofit and for-profit organizations. Her nonprofit experience includes community foundations, professional membership associations, education organizations, performing arts organizations, social welfare organizations and private foundations.



Ismael Ben Kone, Supervisor, Tax, BPM

Ben has been providing tax compliance services to nonprofit organizations for 10 years. He has worked with various nonprofit organizations, including universities, hospitals, performing arts, pension funds, and private foundations.

Moderator



Shannon Winter, CPA, Partner, Assurance, BPM

Shannon provides audit, review, compilation and consulting services to nonprofit organizations. She helps lead BPM's Nonprofit Industry group and provides training on a variety of nonprofit topics - including government compliance. She consults with clients regarding strengthening internal controls and compliance for recipients of local and federal awards. She has worked with both for-profit and nonprofit entities which have received local, state, and federal funds and require federal compliance audits. Her experience includes working with organizations that provide medical assistance to those with mental health issues, substance abuse, financial and housing assistance for low-income and at-risk veterans, individuals, and families, as well as the physically disabled, homeless, and membership organizations. Shannon enjoys helping organizations present their financial results and telling their story.

GENERAL OVERVIEW

Board of Directors Composition/Structure

- No IRS guidelines in place to determine who can serve to be on board
- Different states have different rules about a composition of the Board
- CA Attorney General office issued “Guide for Charities”
- [Attorney General's Guide for Charities: Best practices for nonprofits that operate or fundraise in California](#)
- CA Attorney General publication addresses questions for public benefits corporations
- The minimum number of directors is one
- Every public benefits corporation must have at least three officers – a president, a secretary, and a treasurer
- Before agreeing to be an officer – read duties and requirements

Audit committee (Nonprofit Integrity Act of 2004)

- Charities with gross revenues of \$2 million or more must establish and maintain an audit committee
- \$2 million-threshold excludes grants received from governmental entities, if the nonprofit must account how it uses the grant funds
- Governing boards must appoint an audit committee. The audit committee may include persons who are not members of the governing board
- Cannot include staff members, the president or CEO, the treasurer or CFO of the organization
- Can include no more than 50% of the finance committee members
- The audit committee chair cannot be on the finance committee

Audit committee (Nonprofit Integrity Act of 2004)

- Audit committee, under governing board's supervision, is responsible for making recommendations to the board on the hiring and firing of independent CPAs
- The audit committee must
 - Confer with the auditors to satisfy committee members that the financial affairs of the organization are in order
 - Review the audit and decide whether to accept it; and
 - Approve non-audit services by the independent CPAs accounting firm, and ensure such services conform to standards in the Yellow Book issued by the U.S. Comptroller General

990 REVIEW CHECKLIST

Part I, Summary and Part II, Signature Block

- Provides brief Summary of mission statement and key financial activities
- Disclosure of number of volunteers during the year
- Need to make sure that address is updated, if changed
- Do not forget to enter the organization's website
- Signature block must be signed by the current president, vice president, treasurer, assistant treasurer, chief accounting officer, or other corporate officer (such as a tax officer) who is authorized to sign on the date the return is filed

Part III – Statement of Program Service Accomplishment

- Provides readers with the organization's mission statement and 3 largest programs in great details to raise public awareness of the organization
- Program service accomplishment must provide a comprehensive and accurate portrayal of the organization
- Significant to contributors
- Programs service accomplishment must be consistent with the organization's charitable purpose
- Must tell IRS if any operation was discontinued or a new operation started

Part IV – Checklist of Required Schedules

- Questions asked to determine if a particular schedule should be completed
- Board of Directors must review each question and make sure that the required schedules have been submitted
- Board of Directors must also consider if any of its policies or procedures must be updated if questions 25-28 were answered yes
 - Excess benefits transactions with a disqualified person
 - Receivables from or payables to any current or former officer, director, key employee, or a 35% controlled entity
 - Grants paid to any current or former officer, director, key employee, or a 35% controlled entity
 - Business transactions with any current or former officer, director, key employee, or a 35% controlled entity

Part V – Statements Regarding Other IRS Filings and Tax Compliance

- Must review each question to determine if there are any other compliance requirements not necessarily associated to the Form 990
- Key questions to note:
 - 1a- Number reported in box 3 of Form 1096 (i.e. number of 1099 filed, W-2G)
 - 1b- Number of Form W-2G, Certain Gambling Winnings
 - 1c- Did the organization comply with backup withholding rules?
 - 2a- Number of employees reported on Form W-3 , Transmittal of Wage and Tax Statement
 - 2b- Did the organization file all required federal employment tax return?
 - 3a – Unrelated business gross income of \$1,000 or more will require a 990-T filing

Part V – Statements Regarding Other IRS Filings and Tax Compliance

- 4a- Did the organization have interest or signature authority over a financial account in a foreign country?
- 5a- Was the organization a party to a prohibited tax shelter transaction?
- 5b- Did any taxable party notify the organization that it was a party to a prohibited tax shelter transaction?
- 7a and 7b – Quid Pro Quo – If a donor makes a payment in excess of \$75 partly as a contribution and partly in consideration for goods or services provided by the organization, the organization must generally notify the donor of the value of goods and services provided. There is a penalty of \$10 for each failure to provide the required notification

Part VI – Governance, Management, and Disclosure

- Requests information regarding an organization's governing body and management, governance policies, and disclosure practices
- Must identify number of voting board members and those that are independent
- Must disclose family and some business relationships of the board members
- IRS does not mandate particular management structures, operational policies, or administrative practices, but will consider such policies and procedures to generally improve tax compliance
- The absence of appropriate policies and procedures serve as red flags, and are used to assign audit priorities

Part VI – Governance, Management, and Disclosure

- Board of Directors should consider adopting these best practices-based questions if answered “No”:
 - 12a- Did the organization have a Conflict-of-Interest policy?
 - 13- Did the organization have a written whistleblower policy?
 - 14- Did the organization have a written document retention and destruction policy?
 - 15- Did the process for determining compensation of the organization’s CEO, Executive Director, or top management official, other officers or key employees of the organization include a review and approval of independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?

Part VI – Governance, Management, and Disclosure

- Make sure to check the box for
 - Own website only if the organization posted an exact reproduction (other than information that should be withheld by law such as schedule B) of its form 990.
 - Another’s website only if the organization provided to another individual or organization and that other individual or organization posted on its website an exact reproduction of its Form 990 (without schedule B). Do not check the box if GuideStar publishes your form 990 after pulling it from the IRS.

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

- Extensive compensatory data is required to be reported on part VII and schedule J
- Board of Directors should assess the reasonability of compensation to make sure that it aligns with the organization's activities and employees' responsibilities
- Need to make sure that compensation is reported for the calendar year ending with or within the organization's tax year
- Make sure to check the appropriate boxes for the individuals listed
- Need threshold for Key employees and Highest compensated

Part VIII – Statement of Revenue

- Revenue must be broken down by related or exempt function, Unrelated Business Income (UBI), or excluded from tax under section 512-514
- Must make sure that all related or exempt function revenue are organization's program-related
- Excessive reliance on UBI could risk an organization's exempt status. Is total UBI not material compared to total revenue?
- Need to make sure that all donated services are excluded
- Important to see how material is UBI/how material is the activity?
- Differences between financial statements and 990 due to fundraising reallocation, donated services/facilities

Part IX – Statement of Functional Expenses

- Must use the organization's financial statements to complete this section. Subject to some adjustments
- The organization can use any reasonable method of allocation. There should be some methodology
- Need to make sure that compensation paid to current officers, directors, trustees, and key employees is reported for the organization's tax year
- Need to make sure that expenses reported on line 11g for other fees for services are broken down if they are more than 10% of the organization's total expenses
- Need to make sure that miscellaneous expenses are broken down
- All donated services/facilities are excluded

Part X – Balance Sheet

- Indicates organization financial stability
- Must use the organization's financial statements to complete this section
- Loan to officers is a transaction between the organization and the officer and might trigger schedule L
- The organization must follow the procedures in its Conflict-of-Interest policy for reviewing related party transactions to ensure that the loan is fair, reasonable, and in the organization's best interests

Part X – Balance Sheet

- CA Attorney General now requires the following attachment to CA RRF-1 if the organization has negative unrestricted net assets
 - A written statement confirming that all restricted funds were used consistent with the organization's restricted purpose, and explaining why unrestricted net assets were negative at the end of the reporting period, and
 - Proof of directors' and officers' liability insurance coverage

Part XI – Reconciliation of Net Assets

- Need to account for any unrealized gains or loss on investments as part of your reconciliation on line 5
- Need to account for any prior period adjustment on line 8
- Need to account for differences as a result of changes in net assets or fund balances during the year on line 9. Amount included here are refunds of contributions and program service revenue, reversal of grant expenses
- Even though some of these differences may be grouped in Financial statements, they will need to be broken down on the 990

Part XII – Financial Statements and Reporting

- Need to ensure that the appropriate boxes are checked if the organization has an independent audit or not, or receives a federal grant under the Single Audit Act and OMB Circular A-133

Schedule A – Public Charity Status and Public Support

- Serves as a vehicle for the IRS's, the organization's, and the public's record of the public support test
- Used to indicate an organization's reason for public charity
- Calculation is done over a five-year period
- Generally, the organization should maintain more than 33 ⅓% in public support to keep their public charity status
- Two Public Support Tests to determine public support percentage: One for organization described in Section 170(b)(1)(A)(iv) and the other for organization described in Section 509(a)(2)
- If the organization does not meet the 33 ⅓% public support threshold, it is in danger of becoming a private foundation

Schedule A – Public Charity Status and Public Support

- It is important to track large donations for purposes of schedule A
- An unusual grant is one that is unusually large, unexpected, and one that would endanger the organization's status as normally meeting either the 33 ⅓% public support test or the 10%-fact-and-circumstances test

Schedule B – Schedule of Contributors

- Required for most organizations if anybody donated \$5,000 or more during tax year
- Some charities qualify to only disclose donors who donated over 2% of total contributions
- Disclosure of names and addresses are not required for non-charities (even to the IRS)
- The organization must maintain internal records
- Make sure that a public disclosure copy (a copy on the organization's website) does NOT contain names and addresses of the donors
- CA Attorney General's office changed its guidelines – no schedule B should be submitted with the 990

Schedule C – Political Campaign and Lobbying Activities

- Does your organization do any lobbying?
- If a 501(c)(3) organization – did it make 501(h) election? If yes, file schedule C even if no lobbying for the year
- If 501(c)(4), 501(c)(5), or 501(c)(6) organization, collects membership dues – did the organization notify the members how much of its membership dues payment was nondeductible?
- Ask for the membership dues notices
- If the organization has lobbying expenses and it did not notify its members, the organization might be liable for proxy tax

Schedule D – Supplemental Financial Statements

- Information for donor-advised or similar funds
- Conservation easements, art collections, collections of historical treasures, escrow or similar accounts, endowment funds
- Details for other securities, program related investments, other assets, other liabilities
- If the organization had a separate audit – Part XI and Part XII reconcile financial statements information to 990
- If the organization must disclose an uncertain tax position – see part XIII
- Any additional required information should be disclosed in Part XIII

Schedule G – Supplemental Information Regarding Fundraising or Gaming Activities

- Fundraising Activities – if the organization paid fundraising counsels or professional fundraiser – see part I
- Part II – summary of the fundraising events. It is okay to have a loss from fundraising events since contributions are backed out
- Part III – Gaming. The most common one – raffle.
- Make sure all questions for Part III are completed
- CA Attorney General office has oversight over charitable raffles
- Check if that the organization is registered before conducting a raffle

Schedule I and F

- Schedule F - reports activities outside the US
- Investments, program related activities, grants to individuals, grants to organizations (subject to threshold)
- Important – if the nonprofit gives money to the US organization but earmarks it for the foreign recipient, this grant should be on schedule F
- Schedule F, part IV – foreign forms. Use it as a cheat sheet about what other forms might be required
- Schedule I – grants activity inside the US. Disclose grants to the US organizations (subject to threshold), and grants to the US individuals

Schedule J

- Schedule J – everything you wanted to know about executive compensation (based on calendar year ended within tax year)
- Part I asks question about types of compensation, bonuses, severance, reimbursement policies, and how the compensation was determined
- Part II – breaks down the compensation between base compensation, bonus, other compensation, benefits, and deferred compensation
- Why executive compensation is important?
- Unreasonable compensation = excess benefit transaction
- Not all compensation included in taxable compensation = excess benefit transaction
- Rebuttable presumption

Rebuttable Presumption 501(c) (3) and 501(c) (4)

- Reg § 53.4958-6 establishes rules for rebuttable presumption compensation arrangements
- The compensation arrangements are presumed to be reasonable if three conditions are satisfied
- The arrangement is approved by an authorized body of individuals who have no conflict of interest with respect to the compensation arrangement
- The authorized body obtained and relied upon appropriate comparable data prior to approving the compensation
- The authorized body adequately documented the basis for its determination concurrently with making that determination
- See the Reg § 53.4958-6 for more detail

Schedule L - Transactions with Interested Persons

- Reports transactions with interested persons, entities owned by disqualified persons and the nonprofit
- Transactions which are reported: excess benefits transactions, Loans to and from interested persons, grants benefiting interested persons, business transactions involving interested persons
- Business transaction are subject to threshold - greater of \$10,000 or 1% of total revenue; \$100,000 from a single transaction
- If the nonprofit employs a family member of an interested person – the reporting threshold is \$10,000 of compensation
- Important – open to public inspection. Can disclose a transaction between the nonprofit and a taxable business owned by a BOD member

Schedule R - Related organizations and unrelated Partnerships

- The organization needs to report related tax-exempt and taxable organizations
- Schedule R drives compensation disclosure
- For example, if the same person receives compensation from the nonprofit and the taxable subsidiary, all compensation will be reported on the form 990
- Part IV – related trusts. For CRTs and similar trust, do not report names, EINs, etc. – just the number of the trusts
- Part V– transactions. If the nonprofit has controlled related organizations, and part V, line 1a checked yes – it might trigger UBTI

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David Trepp, M.S., BPM IT Assurance Team

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Thank You!

