

# FORM 990

## WHAT SHOULD YOU FILE?

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# Purposes of the Form 990

- Encourage compliance
- Primary source of information for different groups
  - Regulators (including the IRS)
  - General public including potential donors
  - Media
- Transparency
  - Public disclosure
  - GuideStar
  - Portions of Form 990 not subject to public disclosure



# Other Considerations

- **Form 990 not technically a tax return; it is an information return**
- **Late filing penalties**
  - Reasonable cause abatement
- **Generally, no materiality on the Form 990**
- **Generally, no netting permitted on the Form 990**



# Filing Thresholds

- **Form 990-N**
  - Annual gross receipts \$50,000 or less
  - Must be filed electronically
- **Form 990-EZ**
  - Annual gross receipts normally less than \$200,000
  - Fair market value of assets less than \$500,000
  - Required schedules = A/B/C/E/G/L/N/O
- **Form 990**
  - 12-part core form + 16 schedules



# Parts of the Core Form 990

- **Part I**      **Summary**
- **Part II**     **Signature Block**
- **Part III**    **Statement of Program Service Accomplishments**
- **Part IV**     **Checklist of Required Schedules**
- **Part V**      **Statements Regarding Other IRS Filings and Tax Compliance**
- **Part VI**     **Governance, Management, and Disclosure**
- **Part VII**    **Compensation**
- **Part VIII**   **Statement of Revenue**
- **Part IX**     **Statement of Functional Expenses**
- **Part X**      **Balance Sheet**
- **Part XI**     **Reconciliation to Net Assets**
- **Part XII**    **Financial Statements and Reporting**



# Form 990 in Context

- Form 990 is used as a compliance tool by the IRS and is open to the public.
- The core form provides both financial and nonfinancial information.
- Some of the most important (and heavily scrutinized) parts of the core form include the questions regarding organizational governance practices.



# Supporting Schedules for the 990

- There are sixteen schedules, which may or may not need to be attached to the core form, depending on the activities of the nonprofit
- The majority of mid-sized organizations will attach anywhere from four to eight schedules



# Form 990 Schedules Overview

- Schedule A Public support test
- Schedule B Contributors
- Schedule C Lobbying + Political
- Schedule D Miscellaneous
  - Balance Sheet support
  - Reconciliations
- Schedule E Private schools
- Schedule F Foreign activities
- Schedule G Professional fundraisers
  - Special events
  - Gaming activities



# Form 990 Schedules Overview (continued)

- **Schedule H**      **Hospitals**
- **Schedule I**      **Domestic grant making**
- **Schedule J**      **Insider compensation**
- **Schedule L**      **Insider transactions**
- **Schedule M**      **Non-cash contributions**
- **Schedule N**      **Significant dispositions**
- **Schedule O**      **Free flow narratives**
- **Schedule R**      **Related parties**



# Form 990 Preparation in Context

- A complete return will include the core form and required supplementary schedules
- The organization should keep copies of any returns it has filed





# Focus on Schedule O

## Minimum Requirements

- Must ALWAYS be prepared
- Narratives addressing the following
  - The process, if any, used by the organization to review the Form 990 being filed (Part VI, Line 11b)
  - Whether the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year (Part VI, Line 19)
- Provides for an opportunity to further explain information reported on the Core Form 990
  - Organization's mission or most significant activities
  - Organization's significant program service activities



# Focus on Schedule O

## **Proactive Use**

- Provide additional information or explanations that would be important to readers
  - Reasons why the ratio of fundraising expense to total contribution revenue is too “high” or too “low”
  - The necessary details regarding any new program service activities undertaken by the filing organization
  - Explain a negative response on Part VI, Line 8b when the filing organization does not have any Board Committees with the authority to make decisions on behalf of the entire Board
  - Explain a negative response on Part VI, Line 15b when the organization does not employ any key employees



# Focus on Schedule O

## **Proactive Use - Continued**

- Provide more information regarding Part XI, Line 8, prior period adjustments
- Explain why the number of voting Board members reported on Part VI, Line 1a does not tie to the number of voting Board members reported on the Part VII compensation table
- Provide statistics from the program services



# Focus on Schedule O

## **Additional information**

- Can use as many pages of Schedule O as you desire
- A public document, never include private information such as social security numbers or any proprietary information.
- Form 990-EZ filers may use Schedule O more extensively, since the Core Form 990-EZ offers few opportunities for thorough explanations
- Think about ALL possible users of the form
  - Current and potential donors
  - Grantors
  - The media
  - Watchdog groups
  - Lenders
  - Volunteers
  - Other constituents



# Focus on Schedule O

## **In Summary**

- Form 990 and especially Schedule O – is a chance for not-for-profits to tell their stories.
- Don't miss the opportunity to spotlight the mission, programs, and accomplishments of the organization
- Help the public and others understand the financial health and ability to carry out your mission and program activities

Don't think outside the box

Think like  
There is NO BOX



# Thank You!

## Questions?

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## Form 990: Most Common Errors

by The NFP Advisory Council  
Published April 27, 2017

### The Top 10...

Several years ago, the IRS Exempt Organizations Division published a list of the Top 10 errors they saw on the “new” Form 990 in the early years of filing that return. That list is as follows:

1. Return submitted with either missing or incorrect EIN. Filers should ensure the EIN submitted is correctly entered and belongs to the organization.
2. Incorrect name entered when filing the return. Filers should use the name as shown on IRS Master File records or, if a name change occurred, check the “name change” box and attach any required documentation.
3. Tax period does not agree with the month on the Entity Index File and the filer is not submitting a short period return or a final return. Filers should ensure they file for the tax period on Master File, or clearly indicate they are changing their tax period.
4. Missing Schedule O. Schedule O is required for all 990 filers. Filers are often confused by Line 38 of the core Form 990 (a yes/no checkbox) and assume they have the option not to include Schedule O. Future programming is set to remove this line to avoid confusion.
5. Checking the “final return” box in error. Filers should only check this box when the organization has terminated, closed or ceased to exist. Checking this box closes the organization’s tax-exempt status and filing requirements, causing problems for filers when they attempt to file future returns.
6. Missing Schedule A. Schedule A is required in certain circumstances. If it is missing, the IRS will correspond for the missing schedule.
7. Math error when totaling Functional Expenses (Part IX Line 25, Column A). Filers should verify accuracy when adding lines 1 – 24e.
8. Math error when totaling Net Assets – End of Year (Part X, line 33, Column B). Filers should check calculations in lines 1 - 32 to ensure this total is accurate.
9. Math error when totaling Net Assets – Beginning of Year (Part X, line 33, Column A). Filers should check calculations in lines 1 - 32 to ensure this total is accurate.
10. Math error when totaling Revenue (Part VIII, Line 12). Filers should check calculations in lines 1a – 11e to ensure total revenue is accurate.

Most of these are “big picture” mistakes. Incorrect identification of data, omission of required schedules, and math errors must be avoided at all cost. As the IRS builds “queries” to run against Form 990-series returns (under their [“data-driven decision making” approach](#) to audit selection), we can be sure that they are looking for these mistakes.

### ...And 20 More

As we consider more specific errors on Form 990, here are 20 more items you should keep top-of-mind and be sure to point out to your team. Careful use of the Form 990 instructions, regular reading of the Form 990 Glossary, and discussion of issues with others is generally wise.

1. Filing an incomplete or inaccurate Form 990 (the IRS is now cracking down on this).
2. Failing to complete Heading on Page 1, Item F.
3. Spending too much time responding to Part I, Line 6 regarding the number of volunteers. Pay attention to the instruction, “estimate if necessary.”
4. Having the return signed by an improper individual (Part II). Note that the definition of “officer” for completion of the signature block in Part II is different from the definition of “officer” used elsewhere in the form and schedules, and from the definition of “principal officer” for completion of the Heading on Page 1.
5. Failing to disclose new program service activities on Part III, Line 2.
6. Incorrectly reporting grant expense and program service revenue on Part III, Lines 4a-4d. Further, these amounts should align with totals on Parts VIII and IX.
7. In Part IV, failing to understand all the “terms of art” set forth in this two-page, 38-question checklist. Remember, use the instructions and glossary!
8. Failing to properly report foreign bank accounts on Part V, Line 4, which concerns the Report of Foreign Bank and Financial Accounts (FBAR).
9. Failing to understand and, if applicable, report whether the organization conducted [quid pro quo transactions](#) during the year (Part V, Line 7a).
10. Incorrectly reporting the number of voting board members on Part VI, Line 1a.

11. Failing to understand the definition of “independent” for proper completion of Part VI, Line 1b.
12. Failing to understand when the organization can affirmatively respond on Part VI, Line 11a that the board was forwarded a copy of the Form 990 before filing.
13. In Part VII, Section A, failing to understand and correctly complete the compensation table with respect to current and former officers, directors, trustees, key employees, and highest compensated employees set forth in the instructions. Typically, there are numerous deficiencies in this section.
14. Failing to understand the four different columns in Part VIII and when/where to report amounts in each column.
15. Failing to understand the definition of “program service revenue” for proper completion of Part VIII, Line 2.
16. Failing to understand how to report special event income and expenses for proper completion of Part VIII, Line 8. Note also the requirements for completing Schedule G, Part II as determined on Form 990, Part IV, Line 18.
17. Improperly allocating expenses functionally (horizontal) and/or naturally (vertically) in Part IX.
18. Improperly reporting insider receivables and payables on Part X, Lines 5, 6, and 22.
19. Improperly including certain revenue on Part XI and overall (for example, donated services revenue and unrealized gains). See also, Schedule D, Parts XI and XII and the related instructions.
20. Failing to follow the method of accounting selected on Part XII, Line 1 when completing Form 990 and the required schedules. (Note the potential requirements for filing Form 3115 when changing the organization’s method of accounting.)

For further assistance with Form 990, refer to the additional [tax compliance resources](#) available on the AICPA Not-for-Profit Section website, including the comprehensive Form 990 [Organizer](#) and [Checklist](#).



## The Ins and Outs of Schedule B

Form 990's Schedule B has been the subject of controversy for many years, even before the introduction of the updated Form 990 (and its 16 different schedules!) in 2008. Schedule B is the *Schedule of Contributors* for exempt organizations preparing and filing the Form 990, 990-EZ, and 990-PF. Generally, Schedule B is filed annually by any organization receiving contributions in excess of \$5,000 from a single donor.

Although almost all filers of Schedule B are not subject to public disclosure, there is an exception for private foundations. All private foundations must make their Schedule B available for public disclosure when preparing their Form 990-PF. Some practitioners prepare a "public disclosure copy" of the Form 990 for their clients to post on their web sites and other places, which either removes the Schedule B or shows a scaled down version that removes donor's names and addresses.

Prior to the issuance of the updated Form 990 in 2008, Schedule B preparation utilized the cash method of accounting. Since the updated Form 990 was introduced, Schedule B preparation now must utilize the same method of accounting as is used for the entire Form 990 (See Part XII, Line 1 of the Form 990 to determine the organization's method of accounting.) Since the cash method of accounting was used prior to 2008 in Section 509 to determine public charity status percentages, the 509 regulations and four to five-year total for computing percentages were changed during the 990 redesign.

As a general rule, the Schedule B is required in any year an exempt organization receives \$5,000 or more in contributions (cash or non-cash) from any single donor. There is a special rule for the filing of Schedule B, which is set forth on its first page:

"For an organization described in section 501(c)(3) filing Form 990 or 990-EZ that met the 33 ⅓ percent support test of the regulations under sections 509(a)(1) and 170(b)(1)(A)(vi), that checked Schedule A (Form 990 or 990-EZ), Part II, line 13, 16a, or 16b, and that received from any one contributor, during the year, total contributions of the greater of (1) \$5,000 or (2) 2% of the amount on (i) Form 990, Part VIII, line 1h, or (ii) Form 990-EZ, line 1. Complete Parts I and II."

This special rule comes in handy because it can reduce the number of donors that are required to be reported on Schedule B, which may be beneficial to large charitable organizations. Regardless of whether the special rule is utilized, when determining the appropriate Schedule B reporting threshold, separate and independent gifts of less than \$5,000 from a particular donor can be ignored.

It is important to note that an organization that claims the benefit of this special rule must either

- establish on Form 990, Schedule A, Part II, that it met the 33⅓ percent support test for the current year or prior year, or
- check the box on Form 990, Schedule A, Part I, Line 7 or 8 and the box on Schedule A, Part II, Line 13, as a section 170(b)(1)(A)(vi) organization in its first five years.

The IRS is adamant that no donors be reported on Schedule B as “Anonymous,” notwithstanding the fact that a donor demands such anonymity. From an IRS perspective, the only time “Anonymous” can be reported on Schedule B, Part I is when the recipient exempt organization truly does not know the identity of a contributor. Additionally, the IRS is adamant that the organization’s address *not* be reported as the donor’s address on Part I of Schedule B.

When determining whether an exempt organization must complete Schedule B, it needs to consider the receipt of both cash and non-cash contributions. If the organization has received any non-cash contributions above the requisite threshold amount, such non-cash contributions need to be detailed on Part II of Schedule B. Note that contributed services and/or facilities received by an exempt organization are *not* to be reported on Schedule B.

For more tax resources, see the [Not-for-Profit Tax Compliance](#) section.