Form 990: Top 10 Compliance Pitfalls

Common Reporting Misconceptions

February 28, 2017

GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

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Welcome

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Technical Difficulties?

- Contact Webex at 1-866-229-3239

  Event #622-670-522 / Event Password: GRF2016

- The webinar will be recorded and made available after the event

- Please use the “Chat” function for any technical questions

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- Attendees seeking CPE for this presentation must complete and submit a short evaluation survey that will pop up on their screens after the webinar ends
- Three words will be shared during the webinar; the survey will ask you for those words
- Attendees cannot claim CPE unless we receive a completed evaluation with the correct words
- Technical questions about the survey can be addressed to Alina Stone at astone@grfcpa.com, or at 301-664-9357
- Turn off your pop-up blocker
- This presentation is available to download at www.grfcpa.com/media/228.pptx

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Webinar Objectives

Learning Objective *To provide attendees with a better understanding of how to comply with complex areas of Form 990 reporting.*	**Instructional Delivery Methods** *Group Internet-based*
Recommended CPE *1.0 CPE*	**Recommended Fields of Study** *Accounting & Audit*
Prerequisites *None required*	**Advance Preparation** *None*
Program Level *Basic*	**Course Registration Requirements** *None*
Refund Policy *No fee is required to participate in this session.*	**Cancellation Policy** *In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.*
Complaint Resolution Policy *Gelman, Rosenberg & Freedman is committed to our seminar participants' 100% satisfaction and will make every reasonable effort to resolve complaints as quickly as possible. Please contact kdavis@grfcpa.com with any concerns.*	

Presenters

Meet Your Instructors

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Agenda

1 | Program Service Accomplishments

2 | Governance and Policies

3 | Compensation Reporting

4 | Statement of Activities Reporting

5 | Schedule A – Public Support Test

6 | Schedule C – Lobbying & Political

7 | Schedule L – Interested Persons

8 | Schedule G – Fundraising Events

9 | Schedule R – Related Organizations

10 | Unrelated Business Income

Polling Question #1

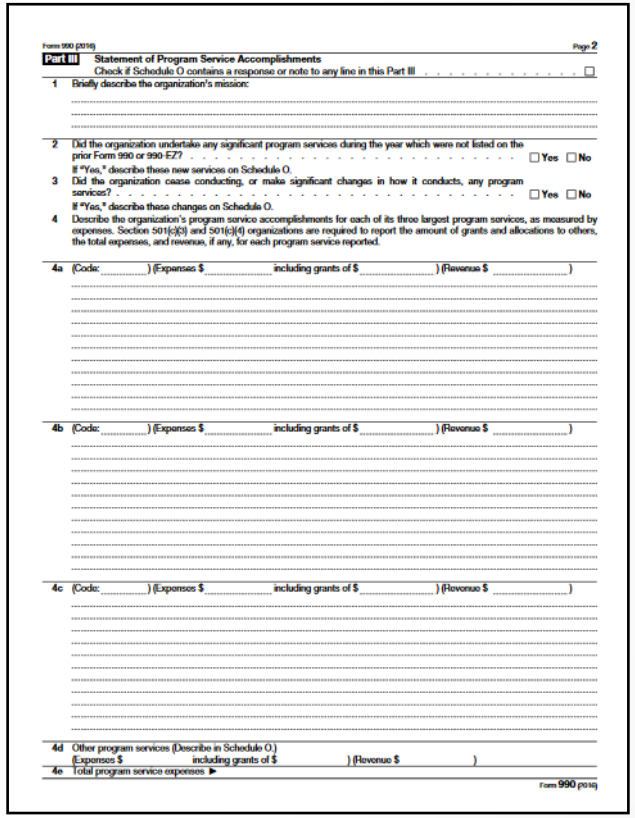
When do you start thinking about and compiling information for your Form 990?

a. *Throughout the year*
b. *During the year-end financial statement preparation*
c. *2 weeks before the filing deadline*

Program Service Accomplishments

Form 990, Part III

- Important to review and update annually
- New significant programs
- Consistent with financial statements



Form 990 (2016) Page 2

Part III Statement of Program Service Accomplishments

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

1 Briefly describe the organization's mission:

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? ☐ Yes ☐ No

If "Yes," describe these new services on Schedule O.

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? ☐ Yes ☐ No

If "Yes," describe these changes on Schedule O.

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code:) (Expenses $ including grants of $) (Revenue $)

4b (Code:) (Expenses $ including grants of $) (Revenue $)

4c (Code:) (Expenses $ including grants of $) (Revenue $)

4d Other program services (Describe in Schedule O.)
(Expenses $ including grants of $) (Revenue $)

4e Total program service expenses ▶

Form 990 (2016)

Governance & Policies

Form 990, Part VI

- Board member independence
- Definition of “member”
- Form 990 review
- States requiring a copy of the Form 990

States Requiring a Copy of the Form 990

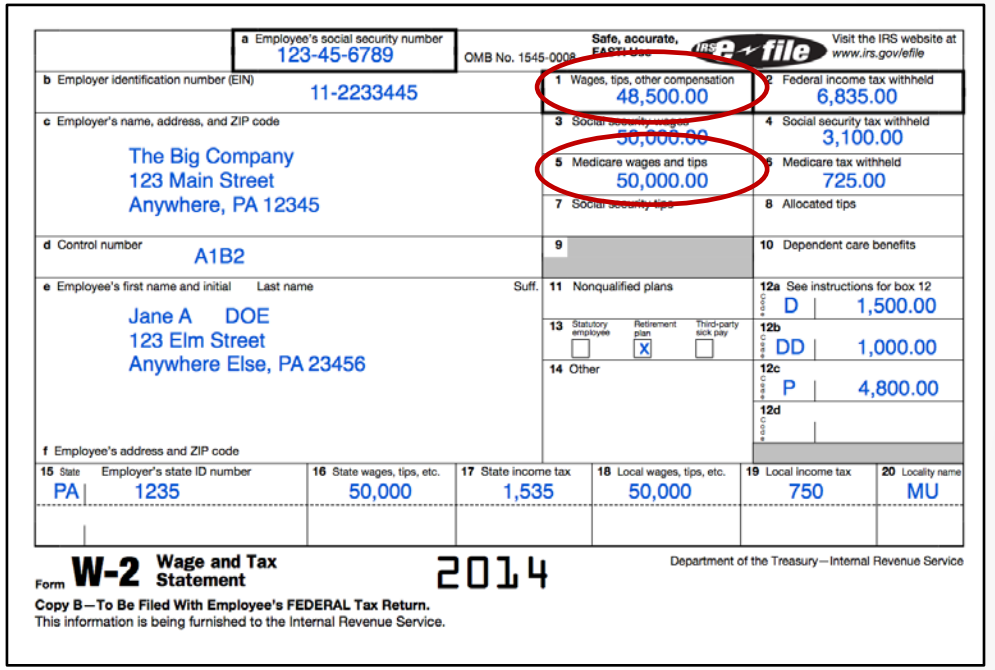
This list will depend on the organization, but for a 501(c)(3) in all states

- Alabama
- Arkansas
- California
- Connecticut
- Florida
- Georgia
- Hawaii
- Illinois
- Kansas
- Kentucky
- Maryland
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- New Hampshire
- New Jersey
- New Mexico
- New York
- North Carolina
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- Tennessee
- Utah
- Virginia
- West Virginia
- Wisconsin

Compensation Reporting

Form 990, Part VII

- Definition of Officer/KE/HCE
- Calendar vs. fiscal year
- Compensation and benefits to report
- Independent contractors



a Employee's social security number 123-45-6789 | OMB No. 1545-0008 | Safe, accurate, FAST! Use IRS e-file | Visit the IRS website at www.irs.gov/efile

b Employer identification number (EIN) 11-2233445

c Employer's name, address, and ZIP code
The Big Company
123 Main Street
Anywhere, PA 12345

1 Wages, tips, other compensation 48,500.00
2 Federal income tax withheld 6,835.00
3 Social security wages 50,000.00
4 Social security tax withheld 3,100.00
5 Medicare wages and tips 50,000.00
6 Medicare tax withheld 725.00
7 Social security tips
8 Allocated tips

d Control number A1B2

9
10 Dependent care benefits

e Employee's first name and initial Last name Suff.
Jane A DOE
123 Elm Street
Anywhere Else, PA 23456

11 Nonqualified plans
12a See instructions for box 12 D 1,500.00
13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐
12b DD 1,000.00
14 Other
12c P 4,800.00
12d

f Employee's address and ZIP code

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
PA	1235	50,000	1,535	50,000	750	MU

Form W-2 Wage and Tax Statement 2014 — Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Statement of Activities Reporting

Form 990, Parts VIII & IX

- Grants vs. contracts
- Donated services
- Functional allocation ratios

Polling Question #2

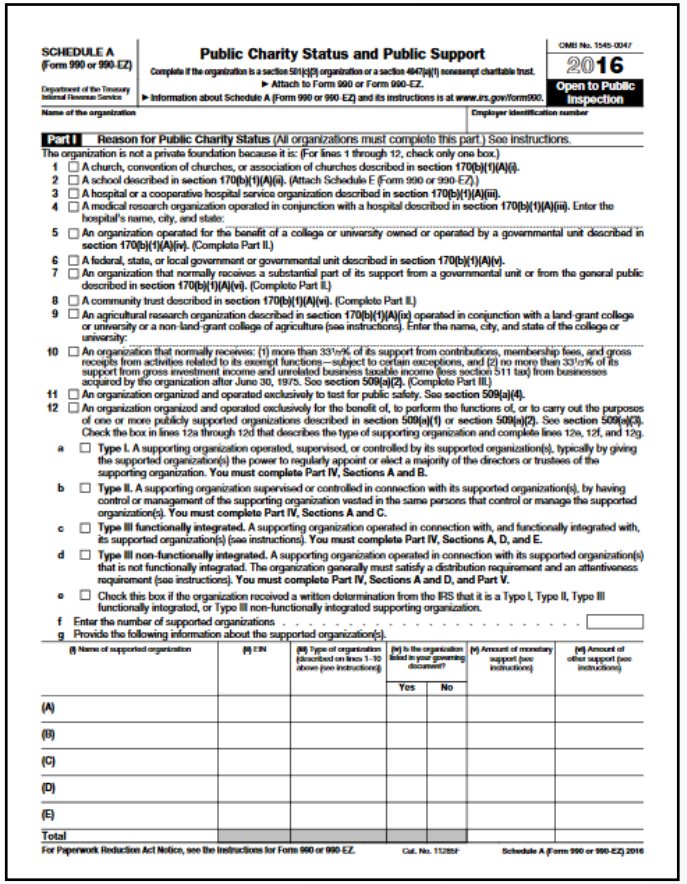
What area of the Form 990 do you struggle with most?

a. *Compensation reporting*
b. *Identifying interested persons*
c. *Related parties*
d. *Public support test*
e. *Special event reporting*

Schedule A

Public Support Test

- Importance of public support test
- 509(a)(1) vs. 509(a)(2)



SCHEDULE A (Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.
▶ Attach to Form 990 or Form 990-EZ.
▶ Information about Schedule A (Form 990 or 990-EZ) and its instructions is at www.irs.gov/form990.

OMB No. 1545-0047

2016

Open to Public Inspection

Name of the organization

Employer identification number

Part I **Reason for Public Charity Status** (All organizations must complete this part.) See instructions.

The organization is not a private foundation because it is: (For lines 1 through 12, check only one box.)

1 ☐ A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i).**
2 ☐ A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E (Form 990 or 990-EZ).)
3 ☐ A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**
4 ☐ A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state:
5 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II.)
6 ☐ A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**
7 ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi).** (Complete Part II.)
8 ☐ A community trust described in **section 170(b)(1)(A)(vi).** (Complete Part II.)
9 ☐ An agricultural research organization described in **section 170(b)(1)(A)(ix)** operated in conjunction with a land-grant college or university or a non-land-grant college of agriculture (see instructions). Enter the name, city, and state of the college or university:
10 ☐ An organization that normally receives: (1) more than 33⅓% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33⅓% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See **section 509(a)(2).** (Complete Part III.)
11 ☐ An organization organized and operated exclusively to test for public safety. See **section 509(a)(4).**
12 ☐ An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in **section 509(a)(1)** or **section 509(a)(2).** See **section 509(a)(3).** Check the box in lines 12a through 12d that describes the type of supporting organization and complete lines 12e, 12f, and 12g.

a ☐ **Type I.** A supporting organization operated, supervised, or controlled by its supported organization(s), typically by giving the supported organization(s) the power to regularly appoint or elect a majority of the directors or trustees of the supporting organization. **You must complete Part IV, Sections A and B.**
b ☐ **Type II.** A supporting organization supervised or controlled in connection with its supported organization(s), by having control or management of the supporting organization vested in the same persons that control or manage the supported organization(s). **You must complete Part IV, Sections A and C.**
c ☐ **Type III functionally integrated.** A supporting organization operated in connection with, and functionally integrated with, its supported organization(s) (see instructions). **You must complete Part IV, Sections A, D, and E.**
d ☐ **Type III non-functionally integrated.** A supporting organization operated in connection with its supported organization(s) that is not functionally integrated. The organization generally must satisfy a distribution requirement and an attentiveness requirement (see instructions). **You must complete Part IV, Sections A and D, and Part V.**
e ☐ Check this box if the organization received a written determination from the IRS that it is a Type I, Type II, Type III functionally integrated, or Type III non-functionally integrated supporting organization.
f Enter the number of supported organizations
g Provide the following information about the supported organization(s).

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1–10 above (see instructions))	(iv) Is the organization listed in your governing document? Yes	(iv) No	(v) Amount of monetary support (see instructions)	(vi) Amount of other support (see instructions)
(A)						
(B)						
(C)						
(D)						
(E)						
Total						

For Paperwork Reduction Act Notice, see the Instructions for Form 990 or 990-EZ. Cat. No. 11285F Schedule A (Form 990 or 990-EZ) 2016

Schedule C

Lobbying & Political Activities

- Distinguishing between lobbying and political expenditures
- Not one size fits all (exempt organizations)
- 501(h) election

Schedule G

Fundraising Events

- Breakout of charitable contributions
- Notification to attendees
- Direct expenses

Schedule L

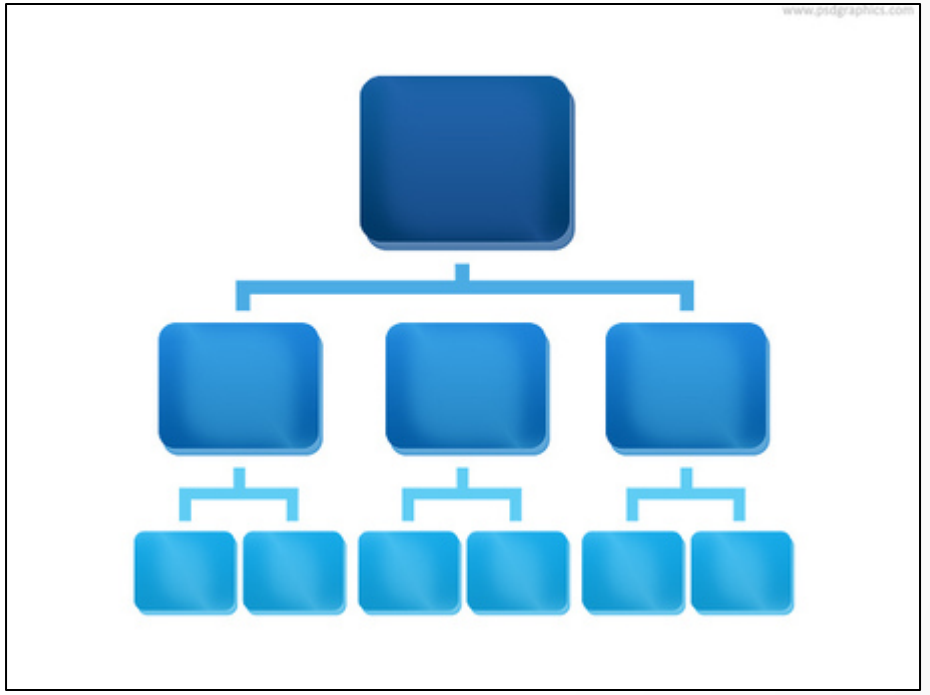
Transactions with Interested Persons

- Definition of an interested person
- Updated guidance on required disclosures

Schedule R

Related Organizations

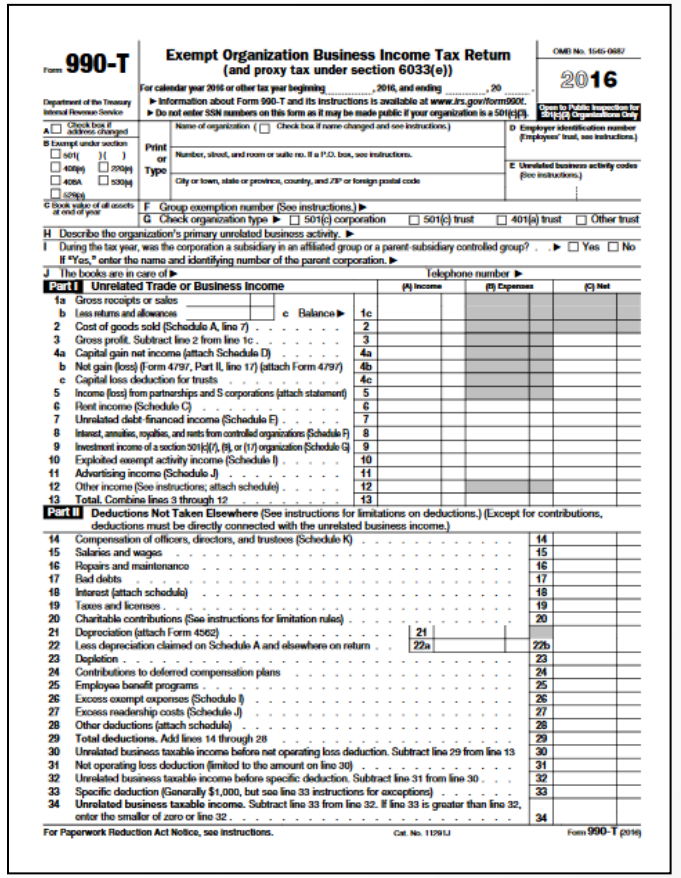
- Identifying related organizations
- Controlled organizations
- Reporting transactions



Unrelated Business Income

Form 990-T

- Regularly carried
- Unrelated to the organization's exempt purpose
- Income from a trade or business



Form **990-T** Exempt Organization Business Income Tax Return (and proxy tax under section 6033(e)) — 2016

Department of the Treasury, Internal Revenue Service

For calendar year 2016 or other tax year beginning , 2016, and ending , 20

► Information about Form 990-T and its instructions is available at www.irs.gov/form990t.

► Do not enter SSN numbers on this form as it may be made public if your organization is a 501(c)(3).

A ☐ Check box if address changed

B Exempt under section ☐ 501( )( ) ☐ 408(e) ☐ 220(e) ☐ 408A ☐ 530(a) ☐ 529(a)

C Book value of all assets at end of year

Print or Type — Name of organization (☐ Check box if name changed and see instructions.) | Number, street, and room or suite no. If a P.O. box, see instructions. | City or town, state or province, country, and ZIP or foreign postal code

D Employer identification number (Employees' trust, see instructions.)

E Unrelated business activity codes (See instructions.)

F Group exemption number (See instructions.) ►

G Check organization type ► ☐ 501(c) corporation ☐ 501(c) trust ☐ 401(a) trust ☐ Other trust

H Describe the organization's primary unrelated business activity. ►

I During the tax year, was the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? ► ☐ Yes ☐ No

If "Yes," enter the name and identifying number of the parent corporation. ►

J The books are in care of ► Telephone number ►

Part I Unrelated Trade or Business Income

			(A) Income	(B) Expenses	(C) Net
1a	Gross receipts or sales				
b	Less returns and allowances	c Balance ► 1c			
2	Cost of goods sold (Schedule A, line 7)	2			
3	Gross profit. Subtract line 2 from line 1c	3			
4a	Capital gain net income (attach Schedule D)	4a			
b	Net gain (loss) (Form 4797, Part II, line 17) (attach Form 4797)	4b			
c	Capital loss deduction for trusts	4c			
5	Income (loss) from partnerships and S corporations (attach statement)	5			
6	Rent income (Schedule C)	6			
7	Unrelated debt-financed income (Schedule E)	7			
8	Interest, annuities, royalties, and rents from controlled organizations (Schedule F)	8			
9	Investment income of a section 501(c)(7), (9), or (17) organization (Schedule G)	9			
10	Exploited exempt activity income (Schedule I)	10			
11	Advertising income (Schedule J)	11			
12	Other income (See instructions; attach schedule)	12			
13	Total. Combine lines 3 through 12	13			

Part II Deductions Not Taken Elsewhere (See instructions for limitations on deductions.) (Except for contributions, deductions must be directly connected with the unrelated business income.)

14	Compensation of officers, directors, and trustees (Schedule K)		14	
15	Salaries and wages		15	
16	Repairs and maintenance		16	
17	Bad debts		17	
18	Interest (attach schedule)		18	
19	Taxes and licenses		19	
20	Charitable contributions (See instructions for limitation rules)		20	
21	Depreciation (attach Form 4562)	21		
22	Less depreciation claimed on Schedule A and elsewhere on return	22a	22b	
23	Depletion		23	
24	Contributions to deferred compensation plans		24	
25	Employee benefit programs		25	
26	Excess exempt expenses (Schedule I)		26	
27	Excess readership costs (Schedule J)		27	
28	Other deductions (attach schedule)		28	
29	Total deductions. Add lines 14 through 28		29	
30	Unrelated business taxable income before net operating loss deduction. Subtract line 29 from line 13		30	
31	Net operating loss deduction (limited to the amount on line 30)		31	
32	Unrelated business taxable income before specific deduction. Subtract line 31 from line 30		32	
33	Specific deduction (Generally $1,000, but see line 33 instructions for exceptions)		33	
34	Unrelated business taxable income. Subtract line 33 from line 32. If line 33 is greater than line 32, enter the smaller of zero or line 32		34	

For Paperwork Reduction Act Notice, see instructions. Cat. No. 11291J Form 990-T (2016)

Updates

Changes in filing deadlines

- Form 8868
- FBAR

Polling Question #3

Are you current on the new deadlines?
For a 12/31/16 nonprofit, what is the new due date after filing the first extension?

a. *5/15/17*
b. *8/15/17*
c. *11/15/17*

Key Takeaways

Avoid Compliance Pitfalls

Stay Current

Be aware of updates & changes to Form 990 regulations throughout the year

Be Proactive

Be proactive about gathering Form 990 information from 3rd parties

Evaluate often

Evaluate new activities/changes for impact on Form 990 reporting

Profit and Loss Statement
<Company Name>
For the <Month or Year> ending <Month-Day-Year>
Stated in 000s
Prior Period
Budget
Current Period
Current Period as % of Sales
Gross margin [L/J]
Return on sales [T/J]
Sales Revenue
Product/Service 1
Product/Service 2
Product/Service 3
Product/Service 4
Total Sales Revenue [J]
Cost of Sales

Q&A

Get In Touch

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Join us again

for our next webinar,

“Effective IT Controls for Financial Statement Audits: Is Your Organization at Risk?”

March 29, 2017, 11:00 a.m. to 12:00 p.m.