



A Practical Guide to the 990 for Nonprofit Leaders

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Introductions



Course Overview

- **A Brief History of the 990**
- **A Review of the 990 Form and Schedules**
- **Best Practices for preparing for your annual 990 report** (and pitfalls to avoid)
- **Best Practices for working with your CPA**



A Brief History of the 990

Why nonprofits report things the way we do



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A Brief History of the 990

- Nonprofit Organizations have been woven into the fabric of American Society since our very formation, popping up to mitigate the inadequacies and inefficiencies of a young government.
- Regulation of the nonprofit industry sprang forth in tandem with income tax laws in the early 20th century.
 - **Tariff Act of 1894** – Income tax exemption for charitable organizations
 - **Revenue Act of 1909** – No private “inurement,” or benefit, from nonprofit proceeds.



A Brief History of the 990

- Regulation continued:
 - **Revenue Act of 1917** – Individual income tax deduction for charitable donations.
 - **Revenue Act of 1936** – Corporate income tax deduction for charitable donations
 - **Revenue Act of 1943** – First 990 forms required to be filed



A Brief History of the 990

- First 990 Components
 - 2 page form with attached schedules listing:
 - **Employee Compensation**
 - **Major Donors**
 - These are still key elements of the 990 today



A Review of the 990 Form and Schedules



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„ The 990 shares your organization's story“

Beyond the financial data, its a chance to educate donors and market your organization's programs.

Savvy donors, prospective employees, funders, partner organizations, journalists, and beyond will read your 990!



5 Types of Form 990

- **990-N** “electronic postcard”
- **990-EZ** “short form”
- **990** (everyone else)
- **990-PF** Private Foundation
- **990-T** – Exempt Organizations Business Income Tax



990 N

Electronic Postcard

- Gross receipts less than \$50K
- Online Only
- Contents:
 - EIN
 - Tax (fiscal) Year
 - Legal name & Address
 - Name & Address of principal officer
 - Organization's URL
 - Confirmation that gross receipts are less than \$50K
 - And (if applicable) a closing statement if the organization is going out of business



990 EZ

Short Form

- Gross receipts less than \$200K
- Assets less than \$500K
- 4 Pages + Schedules
- Contents:
 - All info included on 990N +
 - Revenue, expenses and changes in net assets or fund balances
 - Balance Sheet
 - Statement of Program Service Accomplishments
 - List of officers, directors, trustees and key employees
 - Itemization of grants and major gifts received (if applicable).



990

Full Form

- 12 Pages + Schedules
- Includes all info on 990 N & 990 EZ plus additional more detailed information on finances, governance, policies donors and employee compensation.
- The 990 is broken out into 12 sections, or “parts”



990 Part 1: Summary

- Do this section last, it summarizes information from the other parts of the form
 - Activities & Governance
 - Question 1: Your organization's mission statement
 - Revenue
 - Expenses
 - Net Assets or Fund Balances



990 Part 2: Signature Block

- Typically either the ED or the CFO will sign the 990
- Some organizations have the Board President sign
- If you are using a paid preparer they must have valid credentials to be able to prepare your 990. They should either be a CPA or an EA and they must have a PTIN.



990 Part 3: Statement of Program Service Accomplishments

- One of the most important parts of the 990 – this is your chance to share your mission, your work and your impact....essentially your chance to BRAG!
- List any new program initiatives
 - Use Schedule O to provide details on new programs
- Main program areas are listed individually
 - Narrative
 - Financial Information (Revenue, Expenses, Grants Distributed (if applicable))
- Total Program Expense is reported



990 Part 4: Checklist of Required Schedules

- 38 Yes and No questions that will direct the filer to complete associated schedules.
- **Possible 990 Schedules to complete:**
 - **Schedule A** – Public Charity Status & Public Support
 - All 501c3s must complete
 - **Schedule B** – Schedule of Contributors
 - Contributions over \$5K or over 2% of total revenue from a single donor
 - Includes In-kind
 - Can raise threshold if more than 33 and ⅓% of revenue is from public support \$ (as determined by Schedule A)

Note: Schedules A-G and O accompany the 990 EZ as well



990 Part 4: Checklist of Required Schedules (continued)

- **Possible 990 Schedules to complete (Continued):**
 - **Schedule C** – Political Campaign and Lobbying Activities
 - Question 3 should be **NO** if you are a 501c3
 - H Election
 - **Schedule D** – Supplemental Financial Statements
 - Reports info on property holdings, Donor Advised Funds, conservation easements, art and museum collections, escrow or custodial accounts, endowment funds, etc.
 - **Schedule E** – Schools



990 Part 4: Checklist of Required Schedules (continued)

- **Possible 990 Schedules to complete (Continued):**
 - **Schedule F** – Statement of Activities Outside the US
 - **Schedule G** – Supplemental information Regarding Fundraising or Gaming Activities
 - Professional Fundraising services
 - Fundraising Events
 - Gaming (including raffles, bingo, casino nights, etc.)
 - **Schedule H** – Hospitals



990 Part 4: Checklist of Required Schedules (continued)

- **Possible 990 Schedules to complete (Continued):**
 - **Schedule I** – Grants and Other Assistance to Organizations, Governments and Individuals in the US
 - **Schedule J** – Compensation Information (often required)
 - Accompanies Part 7 of Form 990
 - Required if you pay anyone over \$150K
 - Required if you have turnover and you report former members or staff in Part 7 of 990
 - Required if person listed on Schedule 7 is paid by another organization to work for your org (common with political orgs)



990 Part 4: Checklist of Required Schedules (continued)

- **Possible 990 Schedules to complete (Continued):**
 - **Schedule K** – Supplemental Information on Tax Exempt Bonds
 - **Schedule L** – Transactions with Interested Persons or Related Parties
 - Best practice is to avoid these all together, but if you do transact with a related party maintain meticulous records and have a good reason for why you are transacting with them. (i.e. they are the best person for the job, etc).
 - **Schedule M** – Noncash Contributions
 - Art, land, cars, buildings, goods, food (for food banks), medical supplies, etc.



990 Part 4: Checklist of Required Schedules (continued)

- **Possible 990 Schedules to complete (Continued):**
 - **Schedule N** – Liquidation, Termination, Dissolution, or Significant Disposition of Assets
 - Complete if going out of business, or disposing of a program or transferring a program to another entity.
 - **Schedule O** – Supplemental Information
 - Use Schedule O to provide more detailed information and in-depth explanations to questions on the 990 and 990EZ
 - **Schedule R** – Related Organizations and Unrelated Partnerships
 - Would use if you have a 501c4 or PAC that operates with your 501c3
 - Would also use if you contract out your programs



990 Part 5: Statements Regarding other IRS Filings and Tax Requirements

- Compliance with payroll tax
- Unrelated Business Income Tax (UBIT)
 - It has become popular for nonprofits, especially churches to operate a revenue generating business (like a restaurant) that is unrelated to their exempt purpose
- Deductible contributions under 170(c)
 - This is a yes for organizations that have fundraising events



990 Part 6: Government, Management and Disclosure

- This is a GREAT checklist to go through as an organization – it's pretty much just a list of best practices on how to run your board of directors, executive compensation practices and key policies to have in place.
- Go through this now with your organization. If you answer no to any of these questions, fix it! Now is the time.
 - Whistleblower Policy
 - Document Retention Policy
 - Do you record and save Board Meeting Minutes?
 - Do you have a process for reviewing executive compensation?
 - How do you maintain your transparency? Do you post your 990 on your website?



990 Part 7: Compensation

- Directors, Officers, Trustees, Key Employees and Highly Compensated Individuals
- Information on compensation practices
- A “Key Employee” is one who has a major decision making role in the organization (CEO/ED, CFO, etc)
- Provide salary info for prior W2 year even if not on a calendar year fiscal



990 Part 8: Statement of Revenue

- Information from your organization's Profit & Loss Statement (or Statement of Activities)
- Revenue is divided into the following categories:
 - Contributions, Gifts, Grants and Other Similar Amounts
 - Program Service Revenue
 - Other Revenue
 - Investment income, rents, earned income, etc.
 - Miscellaneous Revenue



990 Part 9: Statement of Functional Expense

- Statement Functional Expense is a foundational element of nonprofit accounting – this is why we track things the way we do
- 3 “buckets”
 - Program
 - Admin (Management & General Expense)
 - Fundraising
- Expenses from your GL will have to map to expense categories on this statement



990 Part 10: Balance Sheet

- Information on Beginning of Year and End of Year
- Beginning of Year info should match prior year return
- This statement is pretty similar to your organization's internal balance sheet, however the accounts will need to be mapped to the form's account categories.



990 Part 11: Reconciliation of Net Assets

- This part sounds scary, but it's just plugging in numbers from other parts of the form and making sure they match and add up.



990 Part 12: Financial Statements and Reporting

- Question 1 should be Accrual – they give you the option to say cash, but they want to see accrual. You will be more likely to get audited if you do not use the accrual method.
- Question 2 centers around whether or not your organization subjects itself to a financial review or annual audit by a CPA. If you are a larger organization (over \$1m in annual revenue) – you should probably get an audit.
- Question 3 pertains to organizations who receive federal funding



Best Practices for Preparing for your Annual 990 Report

And Pitfalls to Avoid



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Best Practice #1 – Have an established accounting system and strong financial controls

- Garbage In – Garbage out
 - If you don't have reliable financial data to report on your 990, you will not have a reliable financial report
- Get your financial house in order
 - Use an accrual based accounting method
 - Prioritize training your accountant
 - Especially on functional accounting and expense allocation
 - Make sure you have an accounting policy manual
 - Can you trust the information in your organization's financial reports?
 - Know where your documentation is, you will need to provide it to the CPA



Best Practice #2 – Have written governance policy and adhere to it

- A big part of the 990 is evaluating your organization's governance practice, i.e. your Board of Directors.
- Use Form 990 Part 6 as a starting point for evaluating your organization
- Ensure you have an active whistleblower and document retention policy – revise them periodically to comply with legal standards
- Make sure your Board of Directors understands their fiduciary responsibility.
- The Oregon AG's office put together a wonderful resource for this: A Guide to Nonprofit Board Service in Oregon
 - <https://www.doj.state.or.us/wp-content/uploads/2022/06/guide-nonprofit-board-service.pdf>



Best Practice #3 – Understand what you have to report on the 990

- This webinar is a great start!
- Read the form 990, go through questionnaires in Section 4 and Section 6 specifically and make sure you know the answers.
- This ties into Best Practice #1 – but ensure that your organization is tracking expenses by function, and monitoring that your admin and fundraising expenses don't get out of hand:
 - Are you following the 70/20/10 rule? (70% Program, 20% fundraising, 10% Admin)



Best Practice #4 – Find a CPA That Gets your Organization

- Find a CPA that works with similar organizations to yours. Ask partner organizations who they work with.
- The world of public accounting is VAST. Not all CPAs are qualified to do nonprofit returns, and may not have familiarity with your type of organization. You want to partner with a CPA who has expertise with similar nonprofit organizations.



Best Practice #5 – Know your deadlines and start early

- Form 990 is due on the 15th day of the 5th month following the end of the organization's taxable year.
 - For organizations on a calendar year, the Form 990 is due on May 15th of the following year.
 - For organizations with a fiscal year end of June 30th, the Form 990 is due on November 15th of the same year.
- Try not to get behind on your organization's financial reports
- File an extension if you need to. You can get a 6 month extension with no questions asked. File using Form 8868.



Best Practice #6 – Undergo an Annual Audit or Financial Review

- An annual audit is a great way to prepare for the 990. It will help you get your financial house in order.
- Your auditor can be your organization's partner and help you create systems and processes that ensure compliance with generally accepted accounting principles.
- If you can't afford an audit or have an annual revenue of less than \$1M, consider a Financial Review instead – its like a mini audit.
- Your auditor or reviewer can be the same CPA that does your 990



Best Practices for Working With Your CPA



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Best Practice #1 – Understand the role of the CPA

- Your CPA is not trying to bust you. They are your partner, not your adversary.
 - If they do find discrepancies or malfunctioning processes in an audit, they can help you fix it by recommending best practices.
- A CPA's goal is to report accurate information in the correct manner.
- If you are working with a CPA on just the 990 and have not engaged them in an audit or review, they have very limited ability to verify your financial information. If you provide them with bad information the risk of that lies with you, not with the 990 preparer.



Best Practice #2 – Understand the role of the Organization

- Much of the work of the 990 prep is done by the organization.
- Your accountant will need to provide year end financial statements and schedules that support the numbers in the statement.
- You will also need to provide program information, donor information, grant information, employee and board member compensation information.
- Make sure that key members of your staff are aware of their obligation to get this information to the CPA. Typical staff involved are:
 - CFO / Finance Director, CEO/ Executive Director , Development Director, Program Director.



Best Practice #3 – Know the process

- Your CPA will provide you with an engagement letter that states the parameters of the service they will provide to you as well as relevant due dates.
- Once the engagement begins, your CPA will furnish you with a list of request and schedules to complete. These schedules and requests will help them get all the information they need to populate the 990. This is the most time consuming part of the process and there will be a lot of back and forth.
- After you complete the schedules, they will compile the reports and send them to you for review.



Best Practice #4 – Engage your CPA Early

- There are currently not enough CPA's in the US to meet the current demand for them. This means that all CPA's have a very large client load.
- Engage your CPA early so that you can be sure to have your 990 handled in a timely manner. Reach out to them periodically throughout the year to maintain your relationship and keep them apprised of any organizational changes.
- Sign your engagement letter in advance of your fiscal year end so that you can hit the ground running.



Best Practice #5 – Open and Honest Communication

- If you are having trouble meeting deadlines or are struggling with the requests that your CPA has sent you, please reach out to them about it – they can help!
 - The list of requests they send are much more accessible than the form 990, however if you aren't used to working with that type of info they might not be accessible to you. Ask to be walked through them, ask for guidance.
- Don't try to cover up the bad – be honest about it so that they can help you fix it.



Best Practice #6 – Give your 990 draft a real review – Ask to see the CPA's schedules and reconciliations

- Once the 990 is complete, you will be given a draft to review. Do this earnestly. You are the expert on your organization, not your CPA. You will be much more likely to catch mistakes.
- Notice that numbers in the 990 might not match the amounts you have in your financial statements. This is because information is often grouped differently for presentation on the 990.
 - Your CPA creates a reconciliation document that ties the numbers from your financial statements to the numbers in the 990 – ask to see this so that you (or your accountant) can double check the numbers and better understand what is being reported on the 990.
- Check that the summary information in part 1 matches the amounts provided in the subsequent parts.





General 990 Best Practices

- Remember that the 990 is a public document. It will be read!
- Embrace the ethos that your 990 tells your story. Have your communications team review any narrative you provide in the document. Make it persuasive and splashy!
- Post your 990 to your organization's website. Transparency is key.





Questions?

Thank you!