

Form 990: A Powerful Tool



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CPAs & BUSINESS ADVISORS



Agenda

- Why does the Form 990 matter?
- Who is looking at the Form 990 and why?
- How can the Form 990 serve as a marketing tool?
- What should donors know regarding the Form 990?
- Form 990 areas of focus

Why Does the Form 990 Matter?

- Not a tax return, informational return
- It's a public document
 - Widely available
 - Public inspection requirements
 - Primary source of information on governance, operations, and programs
- Penalties for incomplete or inaccurate returns
 - On organization and on "responsible individual"
 - \$20/ day, capped at \$10,000
 - \$100/ day, capped at \$50,000 for organizations with gross receipts > \$1 million

Why Does the Form 990 Matter?

- Required by the IRS and by states
 - Informs IRS about activities and financial status
 - Demonstrates organization is meeting qualifications to maintain tax-exempt status
- Form filed depends on size of organization
 - 990-N: average gross receipts < \$50,000
 - 990-EZ: gross receipts < \$200,000 & assets < \$500,000
 - 990: all other

»»» Why Does the Form 990 Matter?

- Failure to file for 3 consecutive years results in loss of tax-exempt status
 - Pension Protection Act of 2006 required most exempt organizations to file an annual information return or notice with the IRS, starting in 2007
 - May 17, 2010 first filing deadline that led to revocations
 - 275,000 nonprofits lost their status in 2010
 - Approximately 17% of all nonprofits on file
 - Expensive and time-consuming process to get tax-exempt status reinstated

Who Is Looking At Your 990 & Why?

- IRS regulations require nonprofits to make documents available for public inspection
 - Form 1023/ 1024 (Exemption Application) if filed after July 15, 1987
 - Current year 990 and 2 prior years
 - *Names and addresses of donors on Schedule B should be redacted in public disclosure copy*
 - Current year 990-T and 2 prior years
 - *Only for 501(c)(3) organizations, starting in 2007*
- More people will look at your 990 than your annual report

Who Is Looking At Your 990 & Why?

- People are viewing your 990 without you even knowing it
 - Online access at guidestar.org
 - Online access via your website
 - Access through MN Attorney General's Office
 - Others

Who Is Looking At Your 990 & Why?

Who:

- IRS
- State agencies
- Major donors
- Foundations and other grantors
- Prospective board members
- Your competition
- Employees – current and former
- Reporters and media
- Watchdog groups

Who Is Looking At Your 990 & Why?

Why:

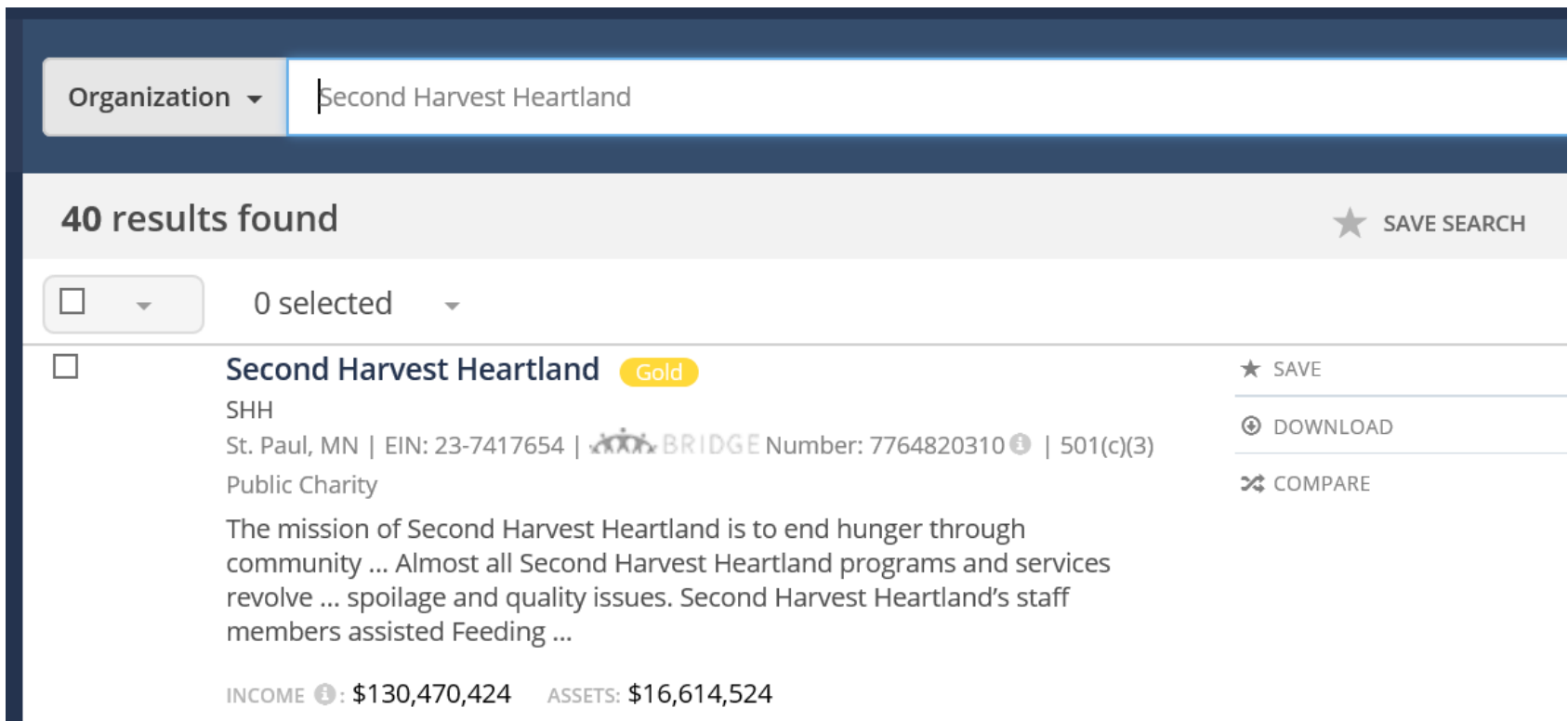
- To learn about your organization
- To evaluate your organization
- Funding decision – grantors and donors
- Regulation and enforcement
- Information gathering
- Looking for a story
- To see how you spend your money
- To benchmark you
- To see compensation practices

Have you viewed your organization on GuideStar?

- World's largest source of information on nonprofits
- 7 million annual visitors
- 1.8 million IRS-recognized tax-exempt organizations
- About two thirds of visitors to GuideStar website look at one or more Forms 990 during their visit




- Second Harvest Heartland was #1 in overall leaderboard rankings during giveMN 2016
- When donors search on GuideStar, this is what they see first



Organization ▾ Second Harvest Heartland

40 results found ★ SAVE SEARCH

▾ 0 selected ▾

<input type="checkbox"/>	Second Harvest Heartland Gold	★ SAVE
	SHH	⬇️ DOWNLOAD
	St. Paul, MN EIN: 23-7417654  BRIDGE Number: 7764820310 ⓘ 501(c)(3)	⚡ COMPARE
	Public Charity	
	The mission of Second Harvest Heartland is to end hunger through community ... Almost all Second Harvest Heartland programs and services revolve ... spoilage and quality issues. Second Harvest Heartland's staff members assisted Feeding ...	
	INCOME ⓘ: \$130,470,424 ASSETS: \$16,614,524	

AGRICULTURE, FOOD, NUTRITION

Second Harvest Heartland

St. Paul, MN | <http://www.2harvest.org>

[DONATE TO THIS ORGANIZATION](#)



Summary
Story of the organization at a glance

Programs + Results
How do they make a difference?

Financials
Gauging financial health by the numbers

Operations
People, practices, and partners

Second Harvest Heartland

- Summary
- Programs + Results
- Financials
- Operations

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MISSION STATEMENT

The mission of Second Harvest Heartland is to end hunger through community partnerships. Our long-term goal is to ensure that sufficient food is in the hunger relief system to end hunger.

MAIN PROGRAMS

1. Program Overview
2. Food Bank
3. Retail Food Rescue
4. Share Fresh Minnesota
5. SNAP (Supplemental Nutrition Assistance Program) Outreach
6. Commodities Supplemental Food Program (CSFP)
7. Child Hunger Initiative
8. Second Harvest Heartland Health

REVENUE VS EXPENSES

The comparison of revenue versus expenses illustrates the financial state of an organization over time.

Source: IRS Form 990

SERVICE AREAS

Self-reported

Minnesota

Second Harvest Heartland serves 59 counties, including 41 counties in Minnesota and 18 in western Wisconsin.

RULING YEAR

1974

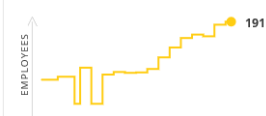
PRINCIPAL OFFICER SINCE 2008

Self-reported

Mr Rob Zeaske

NO. EMPLOYEES IN 2015

Source: IRS Form 990



second harvest
HEARTLAND

Tax Forms (Forms 990)

[Forms 990](#)

Also Known As

SHH

EIN

23-7417654

BRIDGE Number

7764820310

IRS Subsection

501(c)(3) Public Charity

Organization type

Corporation

Contact

Mr. Rob Zeaske

communications@2harvest.org

Claim and update your nonprofit profile – for free!

- Ensures donors and funders find accurate, timely information
- Opportunity to increase funding
 - Activate donate button right on your profile
 - Get your most current data to tens of thousands of foundations that use GuideStar data as well as DAFs
 - Receive real-time alerts when IRS status changes
- Save time with grant applications
 - Pre-populate applications with hundreds of data fields you've already updated on your GuideStar profile
 - Profile information can be pulled straight into participating grants management software – saving you time!

Where does your nonprofit profile information go?

- AmazonSmile
- JustGive
- Network for Good
- VolunteerMatch
- Dozens of online giving portals
- All major U.S.-based donor advised funds (Fidelity Charitable, Schwab)
- More than 35,000 staff from private foundations
- More than 16 leading community foundations

- <https://learn.guidestar.org/update-nonprofit-report>



The Bronze level (15+ minutes) focuses on **basic information** about your organization.



The Silver level (15+ minutes) asks about **quantitative information**, such as financial needs.



The Gold level (30+ minutes) is all about **impact**, asking for **qualitative information** about your organization.



How do you **measure your progress**? The Platinum level (30+ minutes) will ask you to provide quantitative program results.

Charity Navigator

- Known as America's largest charity evaluator
 - Evaluates 501 (c)(3)s that have filed Form 990 for 7 years
 - Organizations with public support > \$500,000; total revenue > \$1 million
- Site examines financial health and accountability & transparency
- 10 million annual visitors



CHARITY NAVIGATOR
Your Guide To Intelligent Giving

Charities Review Council

- Local evaluator of nonprofits
- 25 standards related to public disclosure, governance, finance, and fundraising
- Website lists all Minnesota nonprofits meeting the standards
- Allows donors to invite a charity to participate if they are not currently shown
- Access to 990 and audit report



Form 990 as a Marketing Tool

Part I , Summary:

- Be concise
- Fit the statement all on page one so readers don't have to flip back to Schedule O
- First thing readers will look at

Part I Summary

ance

1 Briefly describe the organization's mission or most significant activities: _____

Part I Summary

ince

1 Briefly describe the organization's mission or most significant activities: Charitable

Part I Summary

1 Briefly describe the organization's mission or most significant activities
SECOND HARVEST HEARTLAND IS THE UPPER MIDWEST'S LARGEST HUNGER-RELIEF ORGANIZATION, WITH A MISSION
OF ENDING HUNGER THROUGH COMMUNITY PARTNERSHIPS

Part III Mission

- Must be board approved
- Make sure consistent with website, annual report, Form 1023 and other marketing materials
- Readers should understand the purpose of your organization after reading Part I statement and mission statement



Part III Programs

- Identify significant changes in your programs
- Highlight how these new programs further the organization's exempt purpose
- Explain why programs have discontinued
- Tell your story
 - Provide meaningful statistics
 - Have consistent information with annual report, financial statements and website
 - Opportunity to draw donors in
 - Provide enough information, but not so much that you lose readers



Part III Programs

What looks better to a reader?

4a (Code) (Expenses \$ 524,361 including grants of \$) (Revenue \$)
 Restoration and conservation of fish and wildlife and their habitats

4b (Code) (Expenses \$ 52,728 including grants of \$) (Revenue \$)
 Educational programs and community awareness projects to members and public

4a (Code) (Expenses \$ 1,087,669 including grants of \$) (Revenue \$)
 CONSERVATION PROGRAMS - THE REFUGE ASSOCIATION SUPPORTS LANDSCAPE-SCALE CONSERVATION INITIATIVES THAT SECURE THE ECOLOGICAL WELL-BEING OF NATIONAL WILDLIFE REFUGES AND THEIR SURROUNDING NATURAL SYSTEMS THE ASSOCIATION CONVENES PUBLIC AND PRIVATE PARTNER AGENCIES, NONPROFITS AND COMMUNITY MEMBERS, IDENTIFIES KEY CHALLENGES AND OPPORTUNITIES IN ECOSYSTEM CONSERVATION AND HELPS SET COMMON GOALS, AND THEN WORKS WITH PARTNERS TO BUILD COMMUNITY SUPPORT AND SECURE FUNDING FROM A VARIETY OF SOURCES TO ACCOMPLISH WILDLIFE CONSERVATION GOALS ON THE GROUND

4b (Code) (Expenses \$ 187,601 including grants of \$) (Revenue \$)
 CONSERVATION POLICY AND EDUCATION - THE REFUGE ASSOCIATION MOBILIZES HUNDREDS OF LOCAL AND NATIONAL PARTNERS TO ADDRESS URGENT CONSERVATION NEEDS, INCLUDING FUNDING FOR THE REFUGE SYSTEM, LOSS OF VITAL HABITAT AND NATURAL SYSTEMS THAT SUSTAIN WILDLIFE REFUGES, INVASIVE SPECIES AND DAMAGING CHANGES IN LAND USE THE ORGANIZATION CHAIRS A COALITION OF NATIONAL ENVIRONMENTAL, SCIENTIFIC AND SPORTING GROUPS WITH A COMBINED MEMBERSHIP OF MORE THAT 15 MILLION PEOPLE, WITH THE OBJECTIVE OF RAISING AWARENESS OF THE NEEDS AND ACCOMPLISHMENTS OF OUR NATIONAL WILDLIFE REFUGES

Part IV Checklist

- Unlike other parts of the form, answering ‘yes’ isn’t always a positive thing
 - Political activities if 501(c)(3)
 - Excess benefit transactions
 - Transactions with interested persons subject to public perception
- If you answer yes, ensure the appropriate schedule is completed and included

Part IV Checklist

Schedule L trigger questions from Part IV:

- Mere appearance of impropriety could hurt image
- Reporters very interested in these questions

- 25a Section 501(c)(3), 501(c)(4), and 501(c)(29) organizations.** Did the organization engage in an excess benefit transaction with a disqualified person during the year? *If "Yes," complete Schedule L, Part I*
- b** Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? *If "Yes," complete Schedule L, Part I*
- 26** Did the organization report any amount on Part X, line 5, 6, or 22 for receivables from or payables to any current or former officers, directors, trustees, key employees, highest compensated employees, or disqualified persons? *If "Yes," complete Schedule L, Part II*
- 27** Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? *If "Yes," complete Schedule L, Part III*
- 28** Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions):
- a** A current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*
- b** A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*
- c** An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? *If "Yes," complete Schedule L, Part IV*

25a		X
25b		X
26		X
27		X
28a		X
28b		X
28c		X

Part IV Checklist

- Part IV, Line 26 'yes' for loan with officer
 - General public/ reporters will want to know what this is for
 - Consider providing additional information
 - If nothing else is reported, general public/ reporters will make their own conclusions as to what it is for
 - What if there is no approval or written agreement? Explain!

Part II Loans to and/or From Interested Persons.												
Complete if the organization answered "Yes" on Form 990-EZ, Part V, line 38a, or Form 990, Part IV, line 26, or if the organization reported an amount on Form 990, Part X, line 5, 6, or 22												
(a) Name of interested person	(b) Relationship with organization	(c) Purpose of loan	(d) Loan to or from the organization?		(e) Original principal amount	(f) Balance due	(g) In default?		(h) Approved by board or committee?		(i) Written agreement?	
			To	From			Yes	No	Yes	No	Yes	No
(1) MICHAEL J DUNCAN	PRESIDENT & CEO	PROMISSORY NOTE		X	223,660	223,660		No	Yes		Yes	



Part IV Checklist

- Part IV, Line 28 'yes' for transaction with key employee
 - Not all information is filled out
 - How much was the transaction?
 - Description is not transparent
 - If you have these types of transactions, answer the questions before they get asked
 - Explain how organization determined arm's length terms
 - Consider providing detail about the process the organization went through to ensure the transaction was in the best interest of the organization

Part IV Business Transactions Involving Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) ROY ANDREWS	KEY EMPLOYEE		RENTAL OF PROPERTY		No



Part V Other Filings

- Ensure responses make sense
 - Most organizations should be showing 1099s and W2s were filed
 - Consider how to disclose compensation paid by others
 - If you report gaming activities on your return, does it make sense you don't file any W-2Gs?
 - Are you filing a 990-T to report UBI?
 - If you report activities in foreign countries, does it make sense to not show any foreign bank accounts?

Part V Other Filings

- If you report special events, does it make sense to state you had no quid pro contributions over \$75?

7 Organizations that may receive deductible contributions under section 170(c).

- a Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?
- b If "Yes," did the organization notify the donor of the value of the goods or services provided?

7a		X
7b		

- If 'yes' to 7a and 'no' to 7b, red flag
- Fines up to \$10,000



Part VI Governance

- “Good governance is important to increase the likelihood that organizations will comply with the tax law, protect their charitable assets and, thereby, best serve their charitable beneficiaries.”

Internal Revenue Service

- Public is increasingly aware of what responses mean in this section



Part VI Governance

- Independence of board members
- Business and family relationships
 - Reasonable effort to gather this
- Delegation of control
- Significant changes in governing docs
- Diversion of assets
- Members; election of board; subject to approval
- Minutes for board and committee meetings
 - *How effectively is the organization being managed?*

Part VI Governance

- Review of these two questions together can cause concern from public and donors
 - No independent board members – all paid by organization
 - Family relationship exists – all brothers
 - Not against the law, but appearance is everything

		Yes	No
1 a	Enter the number of voting members of the governing body at the end of the tax year.		
	If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O.		
1 b	Enter the number of voting members included in line 1a, above, who are independent		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	X	



Part VI Governance

Diversion of assets

- Regulators very interested in this question
- GuideStar provides this information to FBI

990 Part VI Section a Line 5 - Board of directors found upon inspection, missing funds from cash register located at the pet adoption center Employee was terminated but issue was not legally pursued

FORM 990, PART VI, LINE 5 - DESCRIPTION OF MATERIAL DIVERSION OF ASSETS

IN 2014, IT WAS DISCOVERED THAT AN OFFICER HAD BEEN EMBEZZLING. THE AMOUNT OF \$17,686 WAS DOCUMENTED, WITH THE ASSISTANCE OF A CPA FIRM, AS HAVING BEEN REMOVED EITHER IN CASH OR THROUGH THE USE OF ORGANIZATION FUNDS FOR PERSONAL PURPOSES. IT IS POSSIBLE THAT THE CASH DIVERSION EXCEEDS THE AMOUNT THAT COULD BE CONCRETELY DOCUMENTED. THE AMOUNT OF \$17,686 WAS RECOVERED THROUGH INSURANCE PROCEEDS. THE OFFICER WAS IMMEDIATELY RELIEVED OF DUTIES AND REPORTED TO AUTHORITIES. THE ORGANIZATION PARTICIPATED IN THE PROSECUTION OF THE OFFICER, WHO WAS CONVICTED. A CPA FIRM HAS BEEN ENGAGED TO ASSIST WITH DOCUMENTATION OF ALL FINANCIAL TRANSACTIONS. THE BOARD OF DIRECTORS HAS ALSO IMPLEMENTED A PRACTICE OF QUARTERLY FINANCIAL REVIEW. ADDITIONALLY, MEMBERS' FEES ARE NO LONGER ACCEPTED IN CASH.



Part VI Policies

- Process for reviewing the 990
 - Conflict of interest policy
 - Whistleblower policy
 - Document retention & destruction policy
 - Process for determining compensation
 - Joint venture policy
-
- 'Yes' is a good thing in this section
 - IRS uses these responses in conjunction with other parts of the return for determining exams

Part VI Disclosure

- States where you file a copy of the 990
 - Consider registration requirements
- Public disclosure – how do you make it available?
- Do you make governing documents, conflict of interest policy and financial statements available?
- How transparent does your organization appear to the readers?



Part VII Compensation

- Do the number of hours seem reasonable for the position?
 - Cannot use: range for hours, as needed, varied
 - Not realistic to show zero hours for board members - who is overseeing the organization?
 - IRS wants average number of hours per week
- Does the title for the board member make sense given other roles with the organization?
- Does the compensation seem reasonable compared to other organizations or other employees listed?



Part VII Compensation

- If there are unique compensation situations, consider disclosure on Schedule O
 - New employees
 - Terminated employees
 - Compensation arrangements

Address the questions before they can be asked

Part IX Functional Expenses

- Very easy for readers to do the quick calculation to determine what % is spent on program
- Be aware of your percentages
- Ideal range is 70 – 90% program
- Do the percentages relate to the rest of the information in your return?
 - Number of volunteers



Schedule G

- Consider how a donor might view expenses paid for professional fundraisers with little or no revenue raised
 - Disclose special situations (mismatch of years)
- Consider if a professional fundraiser meets the definition under federal and state law
- Reporting of special events can make it look like the organization lost money even if it didn't
- Ensure following state rules for gaming



Schedule O

- Unlimited amount of space
- If any part of the return needs further clarification, explain here
- Read everything from the view of the general public
- Make sure the strengths of the organization are highlighted appropriately
- Double check spelling



Digitalization of Data

- Downloading of digital 990 data is here
 - In 15 minutes IRS can query which organizations had fraud
 - Focusing on compensation, fundraising costs, & diversion of assets
- Single portal for filings so IRS and states can pool resources
 - Project will allow for tools and algorithms to find organizations most likely not operating charitably



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