



UHY LLP
Mid-Atlantic

Nonprofit Insider

UHY LLP provides solutions to nonprofit firms in accounting, tax and consulting.

The Differences Between Financial Statements and Form 990

By Cindy McGiffin, Senior



Your audit or review is complete. Now it's time to prepare the annual IRS Form 990. *Easy.* All you need to do is pull numbers from your audited/reviewed financial statements, right? Not so fast! There are several key differences between how something is reported on your financial statements versus how it's reported on your Form 990. Here are some of the more common differences you will find:

Topic	Financial Reporting	990 Reporting
In-kind services and free use of facilities or equipment	Generally <i>included</i> in income and expense.	Generally <i>excluded</i> from income and expense. (There is an exception for the value of donated services or facilities provided by a governmental unit, which would be included on Schedule A.)
Unrealized gains/losses on investments	Included in the statement of activities as revenue or other income.	Included on the <i>balance sheet</i> as other changes to net assets (excluded from revenue).
Loss from prior uncollectible pledges, refunds of prior contributions; reversal of prior grant expense	Included in the statement of activities as a reduction in revenue or expense.	Included on the <i>balance sheet</i> as other changes to net assets (excluded from revenue or expense). Note: Schedule A should also be restated with updated prior year info.
Investment fees	Either 1) gross investment income is included in revenue or other income and investment fees are in expense; or 2) net investment income is included in revenue or other income.	Gross investment income is reported as revenue (Part VIII); investment fees are reported as expense (Part IX). Netting is not allowed for 990 reporting.

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What are your program service accomplishments really saying about you?

By Cindy McGiffin, Senior

Part III of Form 990 is the *Statement of Program Service Accomplishments*. As a preparer of the Form 990 for many nonprofit organizations, we find the narratives in this section remain fairly unchanged year to year. That's not necessarily a bad thing, but considering that the Form 990 is a source of information for current and potential donors, it's important to ensure the mission and program statements are accurate and up-to-date... not to mention compelling.

There are a few rules for what goes onto Part III of the Form 990.

First, the mission statement should articulate what's stated in the organization's governing documents. If a mission statement hasn't been formally adopted, this should read "None."

Second, this section should be used to report any significant new program services or changes to exist-

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The Next Level of service

For more information, please contact Matt Duvall at mduvall@uhy-us.com

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Topic	Financial Reporting	990 Reporting
Donated securities	<p>Included in income on the statement of activities.</p> <p>For the statement of cash flows:</p> <ul style="list-style-type: none"> • If sold immediately, treat receipt and disposal as operating activity. • If not sold immediately, treat receipt and disposal as investing activity. 	<p>Regardless of how quickly a donated security is sold, it's reported as follows:</p> <p>Form 990 - Part VIII - Statement of Revenue:</p> <ul style="list-style-type: none"> • Report as a contribution at the fair market value on the date of the contribution (Line 1a-1g); • Report as a sale when sold (Line 7a-7d) <p>Schedule B - Schedule of Contributions: Report on Part I - Total Contributions & Part II, non-cash contribution:</p> <ul style="list-style-type: none"> • If sold immediately, report as net proceeds plus broker fees and expenses. • If held, report at the average of the highest and lowest quoted selling prices on the date of the contribution. <p>Schedule M - Noncash Contributions: Report if greater than \$25,000.</p>
Revenue and expenses from government contracts or grants	<p>Included in the <i>statement of activities</i> as revenue and expense.</p>	<p>Depends on the use of funds:</p> <ul style="list-style-type: none"> • If the general public is the beneficiary, revenue is reported as a contribution and expenses are treated as fundraising. • If the government is the beneficiary, revenue is reported as program service and expenses are treated as program.

Keep these differences in mind as you prepare your Form 990 or provide information to your tax professional.

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ing program services. According to the Form 990 instructions, Part III is where an organization *must* report these changes rather than using the IRS Exempt Organization Determination letter process. So this is *the source* for notifying the IRS of significant program changes.

Third, the three largest program services should be described in detail. The descriptions should include each program's objective and accomplishments using specific measurements, e.g., clients served, publications issued, number of events held, and so on. Only 501(c)(3) and 501(c)(4) organizations are required to provide revenue and expenses per program; whereas, this is optional for other types of organizations.

So, when reviewing your annual Form 990, take some extra time to review Part III.

Consider the importance of keeping this page in line with the mission and programs on your organization's



website, as well as what's stated in the first footnote of most financial statements, "Description of the Organization." These three sources are tools for promoting and publicizing what the organization does, and they should be consistent and in sync.

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