

Maximizing Mission | How Tax and Assurance Work Together to Benefit Non-Profits | Video Transcript

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Christa Woelfel:

Thanks for joining us today as we talk about the audit and the tax teams working together in our non-profit space here at Barnes Dennig. Today we're going to be focusing on the Barnes Dennig difference, how our teams collaborate to make the process more seamless for the client, as well as some major differences between the GAAP reporting that you might be seeing in your audited financial statements, as well as the 990 board reporting.

One of the major things we do is collaborate with our audit team and our tax team. Since we are typically working separately, we want to make it a seamless process for the client. One of the big things we do right from the start of planning for our clients is have our audit folks, our tax folks all meet with the client to make sure we're all on the same page when it comes to the timeline of the audit and tax process, as well as going through their key activities for the year.

Lynn Meiser:

Absolutely. It's such a great time to meet with the clients. We get to make sure we're all on the same page with expectations, we all understand what happened during the year at that client, and really make sure we're giving them the best attention to what they need in helping them with any questions they had during the year and items that we can help them address and solve.

Christa Woelfel:

Yeah, absolutely. This process is so important for both of our teams as our audit teams and our tax teams are often looking for different key activities during the year so that we know how to plan for our audit and tax process.

Lynn Meiser:

We can give them the best service, the best of both worlds, our audit side and our tax side.

Christa Woelfel:

Absolutely.

Another item that we love to do for the clients when it's necessary is explaining the differences in our audit reporting versus our 990 reporting for them.

Lynn Meiser:

Yes. Yes, there are some key differences. The Form 990 has special requirements that are different than GAAP financial statements, so being able to explain those to clients are very important. Because we want you to understand we want the users of the financial statements, the finance committee team, the board members, potential donors to make sure that they understand the differences and that we can help support them in any questions that they have.

Christa Woelfel:

Absolutely.

One of the big differences we see in our GAAP financial statements versus the 990 reporting is how we're reporting our investment income as well as our investment expenses. If we're reporting GAAP financial statements, for our investment income, we'll net everything together on those audit financial statements. We'll have our interest and dividends in that line, our unrealized gain loss, our realized gain loss, and we also are required for GAAP reporting to net all of those investment fees with that investment income.

How does that look on the 990 form?

Lynn Meiser:

On the 990 side, we have to take what you added together and break them all apart. On the statement of revenue, interests and dividends are reported on a separate line, so we have to come up with that income number. Unrealized gains and realized losses are also included separately on a different line on the statement of revenue. In addition, the unrealized gains are not included or unrealized losses are not included in the Form 990, so we actually have to take that income out of the statement of revenue and make sure that we're not including it. We have it in a reconciliation in schedule D from the audited financial statements to the tax return, and we also included on page 12 of the Form 990, which is a reconciliation of that assets.

And then finally, another key difference is the investment expenses. On the Form 990, we do not include them as in net of revenue, but we re-class them as an expense on the Form 990. At the end the net is the same, but we have to classify it on the expense side instead of netted with the revenue.

Now on the Form 990, we have to categorize fundraising events separately. We have a separate schedule, a schedule G, where we have to talk about the fundraising events: how much money is brought in, how much of that income is from the event itself, how much is contribution. And then we also have to net expenses with that fundraising event. We have to make sure that it's all included as a net on the statement of revenue on the Form 990.

How is that different on the financial statements?

Christa Woelfel:

On GAAP financial statements, we actually present fundraising expenses depending on how major that special event is. Sometimes we'll report it on a net basis, but sometimes we will report it on a gross basis.

If that fundraising event is a major or ongoing part of that organization's programs, we will report it on a gross basis. We'll show our revenue separate from our expenses. However, if the event is more incidental or peripheral and it's not a major part of their operations, of their mission, or an ongoing event, that's a big dollar raiser for them. We will report that on a net basis where we'll take all the expenses and report that against the revenues on the statement of activities.

Lynn Meiser:

On the Form 990, we do have very specific thresholds. We have if the gross is over \$15,000 is what triggers that schedule, the additional schedule on the tax.

Christa Woelfel:

Okay, when our non-profit clients have in-kind or non-cash contributions that they receive during the year, we often see these come in three different forms. They'll have in-kind goods that they receive, they'll have in-kind services that they receive, as well as in-kind facility usage. On the statement of activities, we want to be sure we report all of these at their fair market value, at least the closest estimate we can get to that fair value. That's for any of the goods received, services received, or facilities received.

In audited financial statements for GAAP, we actually have an additional footnote where we disclose that these are used in their programs or for their operational purposes. It is important that we capture all that activity that may otherwise get missed because the accounting department sometimes doesn't know when development is getting a big in-kind non-cash contribution because it never hits the books. During our planning process, we always want to make sure that we put this top of the client's radar so they can capture all of this.

And then also on the service side of this, when we record any in-kind services received, there are some stipulations there. Almost all non-profits have volunteers that help them out, but that isn't specialized time. We don't count that as in-kind services. We really want to make sure that that in-kind service is specialized work that they would otherwise have to pay for. A lot of times we see this if there's a lawyer on the board. They might be giving them some in-kind legal services that they would otherwise have to go out and find and pay for. We want to make sure we capture all those expenses even though they're not paying for it they otherwise would have to.

How does the in-kind reporting look on the 990?

Lynn Meiser:

The in-kind reporting on the Form 990 is very different. We have clear instructions. We do not include in-kind services and in-kind rent and income or expenses on the Form 990, so if there were income, rent, or in-kind services provided on the financial statements, we have to take that income piece out and we also have to take that expense piece out.

We do, however, include non-cash contributions, so goods that are donated, clothing, household items. We include that on the statement of revenue, and we also may potentially have to add an additional schedule for non-cash contributions if it exceeds a threshold.

Let's talk about our favorite one: miscellaneous income.

Christa Woelfel:

Definitely the tax people's favorite.

Lynn Meiser:

Yes, we do not like to report anything as miscellaneous income on the Form 990 just because if you have a large miscellaneous income reported on the Form 990, you could potentially have a question from the IRS, from users. What is this miscellaneous income? How is it earned? Is it unrelated business income? It could trigger more questions.

When we see a large miscellaneous income item or other income, we like to ask more questions. What is this? Is it really program income? Is it contributions? We like to explore that a little bit further in the tax world to make sure that we have great documentation, we have a great understanding of what that income is to report it accurately to the users of the tax return.

Christa Woelfel:

Got it.

On the audit side of things, or just for GAAP financial reporting, we often lump all of that miscellaneous income into one line item on the financials on the statement of activities. Of course, we do want the financials to be as clear and transparent as possible and really show the story of the organization. If it's one of the larger items on the revenue line, we will break some of that out. But for our GAAP reporting purposes, we're happy to lump all of those little miscellaneous items into one line and keep it easy for our side.

Lynn Meiser:

You guys put it together and we take it apart.

Christa Woelfel:

Exactly.



Lynn Meiser:

Thank you very much for joining us today. It's been great talking to you and discussing the differences in the 990 and the GAAP financial statements. If you would like more information or would like to set up time to talk to us, please reach out to us on our website barnesdennig.com.