

## Non-Profit 101



Everything you need to know about setting up and running a non-profit in compliance with IRS Regulations

## In The Beginning...



- ✧ Form a corporation with the Secretary of State
  - ✧ By-Laws and Articles of Incorporation complete
  - ✧ Obtain an Employer Identification Number (EIN)
- ✧ Complete IRS form 1023 "Application of Recognition of Exemption Under Section 501 (c) (3) of IRC"
- ✧ Open bank accounts in new corporations name
- ✧ Election of officers and formation of board
  - ✧ This has an effect on component unit status for HA
- ✧ Annual Tax Returns

## Articles of Incorporation



## Form SS4



## Allowable Expenses



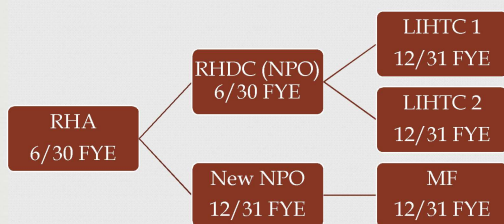
- ❧ If the grants are federal awards, allowable expenses will be very similar to the HA
  - ❧ Now all Under Uniformed Guidance (2015)
- ❧ None federal awards would follow the Common Rule of expense necessary and prudent to an Organization.
- ❧ Vendor transactions vs. Grants
  - ❧ HAP payments to NPO

## Tax Credit Properties



- ❧ Generally a HA (entity 1) will use a NPO (entity 2) to invest into a tax credit partnership (entity 3) with an investor.
  - ❧ The HA is awarded the tax credits through a RFP process.
- ❧ General terms of a partnership is the NPO is a <1% owner and the investor is >99% owner
  - ❧ NPO is the management agent of the property, maintains accounting records and completes annual audit and tax returns.

## LIHTC Structure



## Tax Reporting



- ❧ Required to file a Form 990 (N, EZ, or Long Form) each year regardless of activity.
- ❧ Filing date is 5 months and 15 days after year end. Suggest FYE match HA.
- ❧ Some States requires additional returns
  - ❧ Form 109 - State Return
  - ❧ RRF-1 - Secretary of State

## 501 (C) ...



- ☞ Charitable, Religious, Educational (3)
- ☞ Civic Leagues and Social Welfare (4)
- ☞ Labor, Agricultural (5)
- ☞ Business Leagues (6)
- ☞ Social and Recreation Clubs (7)
- ☞ Fraternal Beneficiary (8)

## Who's Required to File



- ☞ Everyone
  - ☞ Below \$50,000 complete 990 N post card
    - ☞ 3 years of non-filing exempt status revoked.
  - ☞ Between \$50 K and \$200 K (assets below \$500K)
    - ☞ Can use form 990 EZ
  - ☞ Everyone else completes 12 page core form
    - ☞ 990 EZ and 990 filers have A-O (R) Schedules
- ☞ Don't Forget 990 T (UBIT)

## 990 T Form



- ☞ Unrelated Business Income (UBIT) report on Form 990 T.
  - ☞ Example - Building has commercial retail bottom portion, low income housing top 3 floors.
- ☞ Common Exemptions from UBIT
  - ☞ Buildings with no debt
  - ☞ Use of volunteer staff

## Guide Star



- ☞ [www.guidestar.org](http://www.guidestar.org)

## Financial Reporting



- ✧ Very Similar to HA as an Enterprise Fund
  - ✧ Statement of Financial Position
  - ✧ Statement of Activities
  - ✧ Statement of Cash Flows
  - ✧ Notes to Financial Statements (No MDA)
- ✧ Important to know if entity is Blended or Discrete Presentation. (GASB vs. FASB)

## Attestation Levels



## The Levels only CPA



- ✧ Compilation
  - ✧ No opinion, compiled data IAW GAAP
- ✧ Review
  - ✧ No material modification required to be IAW GAAP
- ✧ Audit
  - ✧ Fairly stated, materially (not absolute)

## Audit



- ✧ No audit required unless grant requests or federal awards exceed \$750,000 or donation solicited exceed \$500,000 (excluding grants).
- ✧ Audit can be completed voluntarily and most NPOs do in order to obtain grant funding, but are NOT required by law.
- ✧ Charitable Solicitations Act requires organization expecting > \$30K gross to register with SOS.

## Audit Levels



## Audit Types



- ❧ Audit IAW GAAS (Cheater)
  - ❧ Opinion on FS only
- ❧ Audit IAW GAGAS (Yellow Book)
  - ❧ Opinion on FS and Internal Controls (IC)
- ❧ Audit IAW OMB Circular (Single Audit)
  - ❧ Opinion on FS, IC and Compliance with 12 points

## Basic Financial Statements



- ❧ Statement of Financial Position (BS)
- ❧ Statement of Activities (IS)
- ❧ Statement of Cash Flows (Indirect vs. Direct)
- ❧ Statement of Change in Net Assets (IS)
- ❧ Statement of Functional Expenses

## Statement of Financial Position



- ❧ Assets = Liabilities + Net Assets
  - ❧ Generally classified presentation (current/non)
- ❧ Net Assets (Perm, Temp, Unrestricted)
  - ❧ Permanently Restricted the principle is general permanent and income is unrestricted.
  - ❧ Temporarily Restricted generally timing or nature.
  - ❧ Unrestricted - everything else.



## Statement of Activities



- ❧ Operating Revenue less Expense for operating income or loss
- ❧ Non operating revenue and expenses for other income or loss
- ❧ Overall income or loss called Change in Net Assets
- ❧ Tracks all three types of net assets in two presentations. (vertical or horizontal)

## Statement of Cash Flows



- ❧ Can be either direct method (long) or indirect (shorter)
- ❧ Reconciles the Change in Net Assets to the cash balance
- ❧ Eliminates changes resulting from accruals and non-cash activities (depreciation)
- ❧ Adds non-operating cash activities (investing & financing) that do not affect Change in Net Assets

## Notes to FS



- ❧ Note 1 – description of organization and general accounting policies
  - ❧ Cash, estimates, capitalization policy, FA lives, allowance methods, inventory methods, restricted cash, net asset.
- ❧ Cash balances and insurance coverage
- ❧ Fixed Assets types and balances, depreciation
- ❧ Debt balances, interest rates, 5 year maturity
- ❧ Leases, term, future maturities

## New Note Disclosure



- ❧ Subsequent Events through issuance date
- ❧ Tax Positions
- ❧ Fair Value of Assets and Liabilities (3 categories)
- ❧ Net Assets are only 2 classes (2018)

## Contributed Services



- ❧ Generally referred to as In-kind Donations
  - ❧ Normal would have purchased
  - ❧ Book at FMV of service or goods received
- ❧ Recorded as In-kind income and expense, no effect on Change in Net Assets (net income)

## Pledges Receivable



- ❧ Record and recognize revenue when sufficient evidence exists.
  - ❧ Written agreement generally
- ❧ Could be increase in permanent, temporarily or unrestricted net assets.