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Ron

Pursuant to our conversation, I put together some information for you on the IRS requirements for non-profit organizations as well as the membership requirements for the ECFA. I am also attaching an IRS booklet that has additional information. At the bottom, there is a list of questions that FBC could ask their supported missions agencies to give them additional comfort that they are in compliance with, at a minimum, the IRS requirements.

Fellowship Bible Church of Tulsa Missions Policy "Requirements for Agency PRE-approval" page 3:

"5. Must have acceptable financial accountability standards, such as ECFA, including an outside auditor."

IRS Requirements:

The IRS is dedicated to ensuring that charities operate exclusively for charitable purposes and use their assets to accomplish charitable ends. 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.

Although the Internal Revenue Code does not require charities to have particular governance and management policies, the IRS does encourage boards of charities to consider whether the implementation of policies relating to executive compensation, conflicts of interest, investments, fundraising, documentation of governance decisions, document retention, and whistleblower claims may be necessary and appropriate

Board members are encouraged to regularly review the organization's financial statements and information returns, and consider whether an independent auditor is appropriate

Public charities are encouraged to adopt and monitor procedures to ensure that information about its mission, activities, finance and governance is made publicly available.

There is a new 990 for 2008

Financial Statements and Form 990 Reporting

Directors are stewards of a charity's financial and other resources. The Internal Revenue Service encourages the board, either directly or through a board-authorized committee, to ensure that financial resources are used to further charitable purposes and that the organization's funds are appropriately accounted for by regularly receiving and reviewing up-to-date financial statements and any auditor's letters or finance and audit committee reports.

A. Financial Statements. Some organizations prepare financial statements without any involvement of outside accountants or auditors. Others use outside accountants to prepare compiled or reviewed financial statements, while others obtain audited financial statements. State law may impose audit requirements on certain charities, and a charity must ensure that it abides by the requirements of state law. Many organizations that receive federal funds are required to undergo one or more audits as set forth in the Single Audit Act and OMB Circular A-133. **However, even if an audit is not required, a charity with substantial assets or revenue should consider obtaining an audit of its financial statements by an independent auditor.** The board may establish an independent audit committee to select and oversee an independent auditor. An audit committee generally is responsible for selecting the independent auditor and reviewing its performance, with a focus on whether the auditor has the competence and independence necessary to conduct the audit engagement, the overall quality of the audit, and, in particular, the independence and competence of the key personnel on the audit engagement teams. The Internal Revenue Service encourages all charities to take steps to ensure the continuing independence of any auditor that conducts an audit of the organization. Organizations that file Form 990, will find that Part XI, Line 2, asks whether the organization's financial statements were compiled or reviewed by an independent accountant, audited by an independent accountant, and subject to oversight by a committee within the organization. And, Part XI, Line 3 asks whether, as a result of a federal award, the organization was required to undergo an audit as set forth in the Single Audit Act and OMB Circular A-133.



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B. Form 990. Although not required to do so by the Internal Revenue Code, some organizations provide copies of the IRS Form 990 to its governing body and other internal governance or management officials, either prior to or after it is filed with the Internal Revenue Service. Practices differ widely as to who sees the form, when they see it, and the extent of their input, review, or approval. Some, especially smaller organizations, may provide a copy of the Form 990 to the full board for review or approval before it is filed. Others provide a copy of the form to a portion of the governing body, or to a committee or top management officials, before it is filed. Still others provide a copy to the board, a committee or top management officials, but not until after it is filed. Organizations that file Form 990 will find that Part VI, Section A, Line 10 asks whether the organization provides a copy of Form 990 to its governing body, and requires the organization to explain any process of review by its directors or management.

Other IRS requirements:

An exempt organization that has \$1,000 or more gross income from an unrelated business must file [Form 990-T, Exempt Organization Business Income Tax Return](#).

Every employer, including a tax-exempt organization, who pays wages to employees is responsible for withholding, depositing, paying, and reporting federal income tax, social security taxes (FICA), and federal unemployment tax (FUTA) for such wage payments, unless that employer is specifically excepted by statute from such requirements or if the taxes are clearly inapplicable.

All tax-exempt organizations, including churches and religious organizations (regardless of whether tax-exempt status has been officially recognized by the IRS), are required to maintain books of accounting and other records necessary to justify their claim for exemption in the event of an audit.

Tax-exempt organizations are also required to maintain books and records that are necessary to accurately file any federal tax and information returns that may be required.

There is no specific format for keeping records. However, the types of required records frequently include organizing documents (charter, constitution, articles of incorporation) and bylaws, minute books, property records, general ledgers, receipts and disbursements journals, payroll records, banking records, and invoices

A donor cannot claim a tax deduction for any single contribution of \$250 or more unless the donor obtains a contemporaneous, written acknowledgment of the contribution from the recipient church or religious organization. A church or religious organization that does not acknowledge a contribution incurs no penalty; but without a written acknowledgment, the donor cannot claim a tax deduction.

A church or religious organization must provide a written statement to a donor who makes a payment exceeding \$75 partly as a contribution and partly for goods and services provided by the organization.

Requirements to be a member of the ECFA:

1. Functioned for at least 12 months after receiving its 501(c)(3) ruling letter from the IRS. A ruling letter is not required for churches that have operated for at least 12 months.
2. Received revenues over \$100,000 during its last fiscal year.
3. Obtained financial statements prepared by an independent CPA as follows:
 - o Members with annual revenue of \$3 million or more for the most recent accounting period are required to submit accurate and complete financial statements prepared in conformity with U.S. GAAP and audited by an independent certified public accounting firm in conformity with U.S. GAAS. Members with annual revenue of less than \$3.0 million for the most recent accounting period may voluntarily submit an annual GAAP/GAAS audit.



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- Members with annual revenue of more than \$1 million and less than \$3 million for the most recent accounting period, not electing to voluntarily submit an annual GAAP/GAAS audit are required to submit complete and accurate financial statements (with disclosures) prepared either in conformity with U.S. GAAP or the modified cash basis of accounting, reviewed by an independent certified public accounting firm and apply certain financial controls. For purposes of this paragraph, the term "modified cash basis of accounting" means a comprehensive basis of accounting that includes recognition of property and equipment as assets, depreciation as expense, and debt, other than trade payables and ordinary accruals, as liabilities.⁽¹⁾
- Members with annual revenue of less than \$1 million for the most recent account period not electing to voluntarily submit an annual GAAP/GAAS audit or review are required to submit complete and accurate financial statements (with disclosures) prepared either in conformity with U.S. GAAP or the modified cash basis of accounting compiled by an independent certified public accounting firm and apply certain financial controls.⁽¹⁾

⁽¹⁾ Notwithstanding these provisions, ECFA may require any member to submit audited GAAP/GAAS financial statements as a condition of membership.

Questions to ask supported charities to ensure compliance with IRS standards and good governing practices.

1. What are your annual gross receipts?
2. Do you have Board approved policies relating to executive compensation, conflicts of interest, investments, fundraising, documentation of governance decisions, document retention, and whistleblower claims may be necessary and appropriate
3. Do Board members regularly review the organization's financial statements and information returns, and consider whether an independent auditor is appropriate?
4. Do you use an independent auditor to compile, review or audit your financial statements and records?
5. What tax filings are you required to file? (ie.990, 990-T, W2, W4, 940, 941, state filings, etc)
6. Which of the following recordkeeping documents do you keep? organizing documents (charter, constitution, articles of incorporation) and bylaws, minute books, property records, general ledgers, receipts and disbursements journals, payroll records, banking records, and invoices
7. Do you provide contribution receipts for all donations >\$250 and a written statement to a donor who makes a payment exceeding \$75 partly as a contribution and partly for goods and services provided by the organization.?
8. What kind of accounting method do you use for your financial statements?
9. Do you have >\$1,000 of unrelated business income?

Hope this helps. If you have any other questions or need further assistance, please let me know.

Holly