

Understanding Form 990 (Part 2): Increase Support For Your Organization With Thorough Financial Reporting

In the previous issue of *LvHJ Insights*, we covered Part I through VI of the Form 990 (Read “[Understanding Form 990 \(Part 1\)](#)” [here](#)). We would like to provide an overview of the remaining sections in the form this time.

As you work on your organization’s information returns, please take advantage of the preparation process as **an opportunity to evaluate and update your organization’s internal control and policies** so you can **better showcase financial transparency and operational effectiveness** to the reviewers, including potential donors, while fulfilling your mission.

Part VI: Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

- **Objective:** To disclose the leaders of the organization as well as the compensation paid and benefits provided to them (if any).
- **Notes:** To determine whether the compensation of your organization’s top management and officials are reasonable, you should have an independent review and approval process in place. You should also document the deliberation and decision contemporaneously.

Part VIII: Statement of Revenue

- **Objective:** To provide an understanding of your organization’s revenue sources (e.g., public donations, government grants and service income)
- **Notes:** Certain revenue from unrelated business income, fundraising, investment and sales activity may need to be reported separately.

Part IX: Statement of Functional Expenses

- **Objective:** To present how your organization’s funds were used to carry out your tax-exempt mission.
- **Notes:** Although it is not a true measurement of the efficiency or effectiveness of your organization, potential donors are paying more attention to the percentage spent on management and general expenses and taking it into consideration when making decisions regarding which organizations to donate to. Being conscious of this trend and classifying or allocating your expenses accurately will be beneficial to your organization.

Part X: Balance Sheet

- **Objective:** To provide a snapshot of your organization’s current financial status.
- **Notes:** An amount reported on certain lines of the balance sheet will require the preparation of a supporting schedule with additional disclosures. We recommend that you consult with your tax advisor if you have any concerns.

Please note a change to the automatic extension for Form 990. **For tax years beginning in 2016, the IRS will grant an automatic six-month extension from the due date of the return** instead of two separate three-month extension if more time was needed.



If you have any questions need assistance with Form 990, please contact **Sherman Leong, Tax Manager** at sleong@lvhj.com or 415-905-5432.

[Click here to read more about Sherman Leong.](#)

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