

RECONCILIATION OF THE IRS FORM 990 & AUDITED FINANCIAL STATEMENTS

CFC MEMORANDUM 2003-1

The purpose of this guidance is to clarify the requirements for reconciliation of the IRS Form 990 and the audited financial statements when the revenue and expenses on these two documents differ.

ISSUE: CFC regulations at 5 CFR Part 950.203(a)(3) require that the IRS Form 990 and audit cover the same fiscal period and, if revenue and expenses on the two documents differ, these amounts must be reconciled in an accompanying signed statement by the certified public accountant who completed the audit.

Organizations have asked if they need to have a certified public accountant (CPA) perform the reconciliation of the IRS Form 990 and the audited financial statements if the reconciliation is not completed in the IRS Form 990 or if a financial manager within their organization can perform the reconciliation. The following is a clarification of when a reconciliation of the IRS Form 990 under 5 CFR Part 950.203(a)(3) is required.

The IRS Form 990 and audited financial statements *must be reconciled in an accompanying signed statement by the CPA* who completed the audit if:

- ∅ Lines 12 and 17 in Part I of the IRS Form 990 are **different** from the audited financial statements and Part IV-A and Part IV-B are not completed.
- ∅ Lines 12 and 17 in Part I of the IRS Form 990 and Line a in Parts IV-A and IV-B are **different** than the total revenues and expenses on the audited financial statements.

In these instances the IRS Form 990 is either incomplete or in error and an independent third party, the CPA, must reconcile and explain these differences. If the CPA who completed the audit is not available, it is acceptable to use another CPA *within the same firm* to provide the reconciliation and signed statement.

The only instance when an organization's management may provide a *clarification* is if Lines 12 and 17 or Line a in Parts IV-A and IV-B *do not* equal the revenues and expenses in the audited financial statements *because* certain categories of revenues and expenses on the audited financial statements have to be added together to equal the totals in the IRS Form 990.

We understand that certain categories of revenues and expenses on the audited financial statements may have to be added together to equal the total revenues and expenses that are listed on the IRS Form 990, either on Lines 12 and 17 of Part I or on Lines a of Part IV-A and IV-B. For example, categories of revenues and expenses such as unrestricted, restricted or changes in temporarily restricted net assets may have to be added together to equal the amounts in the IRS Form 990. If this is the case, an appropriate management representative (e.g. officer, director, trustee or chief financial officer) may provide an explanation of the calculation and categories that were used in arriving at the totals on the IRS Form 990 referenced above.

CFC APPLICATIONS AND USE OF STANDARD FORMATS AND CHECKLISTS FOR DOCUMENTING SERVICE REQUIREMENTS

CFC MEMORANDUM 2003-9

Our recent review of 2003 CFC applications found a problem with the use of checklists and standardized formats used to describe services, benefits, assistance and program activities provided by a number of organizations. The purpose of this guidance is to advise that the use of such formats and checklists may substantially affect an applicant's ability to provide the necessary clear showing of real services, benefits, assistance or other program activities in any state as required by [Attachment A](#) of the CFC application. As such, an application using such methods may not meet the requirements of 5 CFR §950.203 (a)(5) in future CFCs.

National organizations and federations must demonstrate that real services, benefits, assistance or other program activities are provided in at least 15 states or one foreign country. An increasing number of applicants rely on the use of standard listings of service categories which an organization may "check-off" to indicate the services, benefits, assistance or program activities provided in each state. Associated with such checklists has been a tendency to replicate the identical narrative description of services for each of the states in which the organization is claiming a presence. In some cases, the only unique information provided is a number indicating how many persons the organization claims to have served in each state.

The use of broad descriptions of services, benefits, assistance or program activities and/or descriptions that replicate the identical information for each state in which service is claimed does not adequately allow OPM to determine that the real services, benefits, assistance or program activities were provided or to accurately determine the number of individuals or entities to whom these were delivered.

Each year, in the fall, OPM sponsors an orientation session for participating charities and prospective applicants. Enclosed is a copy of examples used for training purposes which illustrate the clear showing of services, benefits, assistance or program activities as required in Attachment A.

As you know, CFC Operations staff is always willing to respond to questions about the application process and discuss any issues identified.

Thank you for your attention to this matter.

NEW CERTIFICATION FOR 2004 CFC APPLICATION

CFC MEMORANDUM 2003-10

The Model 2004 CFC application is being amended to include a new certification to address anti-terrorism guidelines issued by the Department of the Treasury earlier this year.

All charities, including Federations, which apply for participation in the CFC must now certify that they do not knowingly employ individuals or have ties to organizations found on any list promulgated by the U.S. Government or other international sources. The following guidelines apply to all national and local federations and unaffiliated organizations that wish to be considered for participation in the CFC.

- **Local and national federations must verify, as part of their screening process, that each of their members has completed this certification.**
- **All local or national unaffiliated applicants to the CFC must also complete the certification and will be reviewed against published lists indicated by OPM.**
- **Local and national federations must verify their list of member charities against the published lists indicated by OPM.**

The Office of CFC Operations will make available links to all relevant websites and also make available for review each year an updated copy of the Department of the Treasury's Office of Foreign Assets Control – Specially Designated Nationals List. In addition, OPM will monitor and provide regular updates to all LFCCs and PCFOs and federations regarding updated information from the Department of the Treasury list.

Certification:

_____ I certify that, as of (date on which this application is being submitted to the CFC) the organization named in this application does not knowingly employ individuals or contribute funds to organizations found on any terrorist related list promulgated by the U.S. Government, the United Nations, or the European Union including the Department of Treasury's Office of Foreign Assets Control Specially Designated Nationals List, the Department of Justice's Terrorist Exclusion List, and the list annexed to Executive Order 13224. Should any change in circumstances occur during the year OPM will be notified within 15 days of such change.

CASH VS. ACCRUAL METHODS OF ACCOUNTING

CFC MEMORANDUM 2001-2

Several LFCCs and PCFOs involved in the local application process have asked us to clarify the requirement for CFC applicants to prepare their financial disclosure forms and reports (specifically, the IRS Form 990 and audited financial statements) using the accrual method of accounting. The policy with respect to the accrual method requirement is applied differently, depending upon the amount of annual revenue appearing on line 12 of the Form 990.

CFC regulations require applicants with \$100,000.00 or more in revenues to submit a copy of their most recent audited financial statements. The financial statements must be prepared using Generally Accepted Accounting Principles (GAAP) and must be audited using Generally Accepted Auditing Standards (GAAS). This means only the accrual method of accounting is acceptable. CFC regulations also require applicants to provide a copy of their IRS Form 990 for the same fiscal period. The figures shown for revenues and expenses on both documents must reconcile and both documents must be prepared using the accrual method of accounting.

The regulations do provide an exception to the audit requirement for local applicants with less than \$100,000 in revenue (see 5 CFR §950.204(a)(2)(ii)). These agencies *do not* have to provide an audit. Because there is no need to reconcile the IRS Form 990 with an audit, the IRS Form 990 does not have to be prepared using the accrual method. This is consistent with instructions appearing in Item 5 of the CFC Local Unaffiliated Instructions.

You may want to provide instructions (below) to staff reviewing the financial disclosure documents of local applicants.

For agencies with \$100,000 or more in revenue on line 12: Both the IRS Form 990 and the audited financial statements must be prepared using the accrual method. Box J on the first page of the Form 990 must be checked indicating that the accrual (not cash or “other”) method of accounting has been used. This is the case even if a cash-based IRS Form 990 reconciles with an audited financial statement prepared using the accrual method. Reconciliation letters prepared and signed by a certified public accountant that purport to reconcile differences between a cash-based Form 990 and the audited financial statements cannot be accepted if the Form 990 has been prepared using a cash-based system.

For agencies with less than \$100,000 in revenue on line 12: These local applicants are not required to provide an audited financial statement with their CFC application. As a result, many prepare their financial disclosure documents on a cash or modified-cash basis, which is acceptable. If line 12 on the first page of the IRS Form 990 shows an amount less than \$100,000, Box J may be checked to indicate that the Form was prepared using a cash or other method. It is unrealistic to expect very small organizations to use an accrual accounting method solely to be eligible for a local CFC. Some applicants may provide an audit even though revenues are less than \$100,000. In these cases, the audit is not a requirement and can be viewed as an immaterial part of the application – even if it was prepared using a different method of accounting than the IRS Form 990.

ATTACHMENT G

Attachment G must also include details of the membership dues and/or service charges received by the federation from the charitable organizations participating as members.

The information should be clearly presented to allow the general public to understand the amounts raised, the source of contributions, the costs of fundraising, and how costs are recovered from donations. Federations are required to add this information as a permanent feature of the annual report made available to the public.