

Form 990 Return of Organizations Exempt from Income Tax

Form 990: www.irs.gov/pub/irs-pdf/i990.pdf

The Internal Revenue Service (IRS) made significant changes to the Form 990 in 2009:

- Includes increased scrutiny of your organization's financial transactions, staff compensation, policies, and standards of board governance.
- In depth look at current "best practices" for nonprofits.

Consequently, the complexity of the new Form 990 will require your organization to work more closely with its Board of Directors and legal and tax advisers to ensure that it demonstrates the appropriate transparency and compliance to the IRS, watchdog agencies (e.g. the Better Business Bureau or Charity Navigator), and its donors.

A Marketing Tool

Think of the Form 990 as a marketing tool, not just "another government report."

- Tap your organization's valuable people resources in your program and communications staffs. Because of their unique perspective about your organization's program, they can help present the organization's accomplishments and significant activities better than any outside accounting firm. They can provide appropriate words to use when written summary paragraphs are needed.

Phase-In Approach

What is the phase-in process for small tax-exempt organizations for the redesigned Form 990?

- The IRS announced a transition period for small tax-exempt organizations. Until the set filing date, these organizations may choose to file a Form 990-EZ instead of the redesigned Form 990 if it satisfies both the gross receipts and assets tests. This phase-in process, as presented below, will allow organizations to become familiar with the redesigned Form 990.

Tax Year	Filing Year	Filing Threshold
2009	2010	• Organizations with gross receipts between \$25,000 and \$500,000 and total assets less than \$1.25 million may file the Form 990-EZ
2010	2011	• Organizations with gross receipts between \$50,000 and \$200,000 and less than \$500,000 total assets may file the Form 990-EZ
2010	2011	• Organizations with gross receipts from \$25,000 to \$50,000 will be required to file Form 990-N

General Form 990 Filing Requirements

Who Must File a Form 990 – General Rule?

- Organizations exempt from income tax under Internal Revenue Code (IRC) 501(a), which includes 501(c), 501(e), 501(f), 501(k), 501(n), and 4947(a)(1), must generally file their Form

990 based on their gross receipts for the tax year. Exceptions to the general filing requirement are listed under IRC 6033 and will be included in the Form 990 instruction booklet.

When is the Form 990 due?

- The Form 990 is due to the IRS on the 15th day of the 5th month following the end of the organization's accounting period, e.g., due May 15 if the accounting period ends December 31 or due November 15 if the accounting period ends June 30.

Are Forms 990 required to be made available for public inspection?

- Yes. Since 1999, the IRS has required that an organization's completed Form 990 be made available to the public. Certain information related to contributors may not be made public depending on the type of organization. Those seeking a completed Form 990 may request a copy from the IRS or from the organization directly. Free access to Forms 990 for all filers can be found at www.guidestar.org.

Schedules

The IRS has issued 16 schedules that an organization may be required to complete. One form that is new and significant for our discussion is Schedule M, Non-Cash Contributions.

- **Schedule M, Non-Cash Contributions** – The new Schedule M requires organizations to report the aggregate of \$25,000 of 24 specific categories of non-cash property an organization receives. This new Schedule may require organizations to implement new recordkeeping practices. Two questions on Schedule M that are notable include:
 - Does the organization have a **gift acceptance policy** that requires the review of any non-standard contributions?
 - Does the organization **hire or use third parties or related organizations to solicit, process, or sell non-cash contributions**?

Take Caution!

As you can see from the discussions in this document, Forms 990 are useful for understanding many aspects of an organization's mission, programs, and finances. Because of this, a number of cautions are in order:

1. **Snapshot:** Financial information is more meaningful if viewed over a period of several years. Organizations typically change over time. A single year's Form 990 provides only a snapshot in time.
2. **Your Donor's Viewpoint:** Financial indicators, such as the percentage spent on fundraising or on programs, are often misleading. Such indicators depend on several factors, including the age and size of an organization, as well as the field and types of programs it provides. Comparing the financial indicators of very different organizations probably doesn't provide any useful information to potential donors.

3. **GAAP & Audited Financial Statements:** The IRS does not require that the Form 990 be completed according to Generally Accepted Accounting Principles (GAAP), or that tax-exempt organizations have audited financial statements. Thus, a tax-exempt organization may have some difficulty in complying with the various requirements in the Form 990. However, at various points in the Form 990, the IRS made an effort to enable tax-exempt organizations to more easily reconcile the differences between GAAP and the tax laws.

4. **Donated Services:** Donated services (or the use of facilities) are not to be reported in the Form 990, but must be reported in the organization's audited financial statements.

5. **Statement of Functional Expenses:** Some Form 990 readers know that the amounts reported in the Statement of Functional Expenses, columns B, C, and D (Program Services, Management and General, and Fundraising columns) may be subject to manipulation by the organization. Specifically, there can be a desire on behalf of the organization to maximize amounts classified as "program services" and minimize amounts reported in the other two categories, particularly fundraising costs.
 - For example . . . When an organization combines educational campaigns with fundraising solicitations and reports these joint costs as program service expenses in column B, it must also, at the end of the Statement of Functional Expenses, report on total joint costs and their allocation.Knowledgeable Form 990 readers will check both sections to have a clearer picture of the organization's true fundraising costs.

Is your CPA or Tax Preparer Hurting Your Organization?

Many organizations hire an independent tax preparer or Certified Public Accountant (CPA) to prepare its Form 990. If your organization does, you need to know that the use of a paid preparer does not relieve the organization or responsible person within the organization of its responsibility to file a complete, accurate, and timely Form 990. Whether the Form 990 is prepared by organizational staff or a tax preparer, this checklist will allow you to ensure compliance and that your organization's image is properly and accurately portrayed.

- Are All Questions Answered?** Are all applicable line items answered with a "Yes", "No", or "N/A" (not applicable)? Ensure each question is completed to avoid a penalty or having to supply missing information later. Although answering some questions are not required by law, incomplete sections may lead readers to believe the organization is hiding something.

- Are Entries Correct?** Are all applicable line items completed with the correct entry, including a zero when appropriate, and are all total lines completed? Ensure all lines are completed to avoid a penalty or having to supply the missing information later.

- Does it Apply?** If a part does not apply, is the area completed with “None” or “N/A”? Ensure that all sections and parts are addressed to avoid a penalty or having to supply the missing information later.

- Avoid handwritten Form 990s.** Take the time to download an on-line Form 990, whether you print and mail it, or submit it electronically. Remember, once the IRS has your Form 990, it is available for inspection via the internet. Because of this you want your Form 990 to be legible and professional looking – remember your organization’s image.

- Did You provide Your Organization’s Website?** This is required on page 1 under Part I? In this electronic age you want the public to have easy access to your organization on the internet.

- Are You Hiding Something?** If parts of the Form 990 or required schedules are left blank or incomplete or it is incorrectly completed, readers may infer that the organization may be trying to hide something, the organization does not know how to complete that part, or the organization did not make the effort required to complete it accurately. Readers also may draw invalid conclusions from any of these findings.

Checklist to Preparing the Form 990
--

Consider this list of steps prior to preparing the Form 990:

- Assign an internal point-of-contact to coordinate Form 990 preparation. This person will be responsible for daily oversight of the process, and should be well-versed in accounting, compliance, and legal issues.
- Review the instructions for the Form 990.
- Review the Form 990 with the subject matter experts, especially the Treasurer, CFO, or Finance Director, within your organization, as well as legal advisers and auditors.
- Identify the written policies that your organization must acknowledge on Form 990.
- Identify the schedules you need to complete.
- Identify the key internal stakeholders to involve to complete the Form, including finance, program leaders, fundraisers, Public Relations/government relations, and Human Resources personnel.
- Identify your related organizations and trustees, directors, officers, and key employees.
- Locate proper information to answer new questions about governance, executive compensation, and related or interested party transactions.
- Based on the above, establish or modify internal systems to prepare for filing season.

After accomplishing the above steps, you will want to establish more detailed checklists with your tax preparer relating to each part of the Form 990.

Conclusion

Transparency and Accountability. Donors and funders who contribute their hard-earned dollars want to trust that tax-exempt organizations will use their money to make a difference. They may feel betrayed when they hear their organization of choice has gotten into trouble or ineffectively used its resources. As the only public document required of tax-exempt organizations in the United States, the Form 990 is the key for organizations to prove its transparency and accountability.

Advance your organization's mission and increase future revenues. The Form 990 can be used to your organization's advantage. Share it in advance of filing with your program and communications staff, executives, board members, and financial staff. Together, they can develop more useful, effective, and complete informational returns, which can help advance your organization's mission and potentially increase future revenues. Make your Form 990 work for your organization.



Legal Disclaimer: *None of the information in this document should be construed as offering legal advice. The specific advice of legal counsel is recommended before acting on any matter discussed in this document.*