

The New IRS Form 990 As A Marketing Vehicle:

Tips on Charitable Governance to Make Your 990 Shine For Donors



 **Robert Lee**
& Associates, LLP

Principals to remember

Assets held by United States based non-profit organizations are the property of the people of the United States.

Boards, committees, officers, directors and employees are trustees of these assets.

Principals to remember

Therefore, those charged with governance have a fiduciary responsibility to ensure that the assets are safeguarded and properly administered.

The IRS and other public watchdogs take these principals seriously and often pursue them passion.

Which Organizations must file Form 990?

Tax Year	Gross Receipts Over	or Total Assets Over
2008	\$1,000,000	\$2,500,000
2009	500,000	1,250,000
2010	200,000	500,000

If the organization is below the above levels, it can file
Form 990-EZ

Form 990-N (revenue less than \$25,000 / year \$50,000/ year starting in 2010)

Consider filing the form 990 even if you can file the 990-EZ if it
will put your organization in a better light

990 Redesign

According to the IRS, the 990 was redesigned based on three guiding principals:

- 1) Enhancing transparency**
- 2) Promoting tax compliance**
- 3) Minimizing the burden on the filing organization**

The IRS says:

“...the [new] form allows an organization to *describe its exempt accomplishments and mission* up-front and provides more opportunities throughout the form for the organization to *explain its activities*.”

“Other major changes were made to the*governance section*...and *executive compensation*, related organizations, foreign activities and....”

Sections of the 990 to make Shine:

PART	Section Description
I	Summary
III	Statement of Program Service Accomplishments
IV	Checklist of Required Schedules
V	Statements Regarding Other IRS Filings and Tax Compliance
VI	Governance, Management and Disclosure
VII	Compensation
XI	Financial Statements and Reporting
Schedule O	Supplemental Information

Part I Summary

Activities & Governance	1	Briefly describe the organization's mission or most significant activities: _____ _____ _____	
		2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.	
	3	Number of voting members of the governing body (Part VI, line 1a)	3
	4	Number of independent voting members of the governing body (Part VI, line 1b)	4
	5	Total number of employees (Part V, line 2a)	5
	6	Total number of volunteers (estimate if necessary)	6
	7a	Total gross unrelated business revenue from Part VIII, column (C), line 12	7a
	7b	Net unrelated business taxable income from Form 990-T, line 34	7b

TIPS:

Question #1

- Take full advantage of the space provided
- This is the first opportunity that a reader has to get excited about your organization
- Use this opportunity to tell people why your organization SHINES!!
- Describe most significant activities instead of the mission statement (Part III has a specific question on the mission statement)

Part I Summary

Activities & Governance	1	Briefly describe the organization's mission or most significant activities:	
		
		
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.	
	3	Number of voting members of the governing body (Part VI, line 1a)	3
	4	Number of independent voting members of the governing body (Part VI, line 1b)	4
	5	Total number of employees (Part V, line 2a)	5
	6	Total number of volunteers (estimate if necessary)	6
7a	Total gross unrelated business revenue from Part VIII, column (C), line 12	7a	
7b	Net unrelated business taxable income from Form 990-T, line 34.	7b	

TIPS:

Question #3

- Small boards, while often effective, are not necessarily viewed positively.
- Consider growing your board membership so that at a minimum, you have board members with appropriate expertise
 - Leadership, Program, Development, Legal, Financial

Question #4

- The greater the number and percentage of independent voting members the better.
- This is a public benefit organization, not a family meeting

Part III Statement of Program Service Accomplishments

1 Briefly describe the organization's mission:

990 Instructions:

Describe the organization's mission as articulated in its mission statement or as otherwise adopted by the organization's governing body, if applicable.

If the organization does not have a mission that has been **adopted** by its governing body, enter "None."

TIPS:

- Make sure you have a board approved mission statement before you file
- Does your mission statement compel people to want to learn more?

- 2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? Yes No
If "Yes," describe these new services on Schedule O.
- 3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? Yes No
If "Yes," describe these changes on Schedule O.

TIPS:

- If "Yes," describe these new services on Schedule O
- Don't be shy with your descriptions on Schedule O

4 Describe the exempt purpose achievements for each of the organization's three largest program services by expenses. Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code: _____) (Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

.....

.....

.....

.....

.....

.....

.....

TIPS:

- Use clear and articulate language to describe each program
- Take time to develop the wording for this section
- Involve your development director or department
- Best not completed by a financial person
- Utilize the space available. A lot of white space will look like a lot of white space

4 Describe the exempt purpose achievements for each of the organization's three largest program services by expenses. Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code: _____) (Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

.....

.....

.....

.....

.....

.....

.....

TIPS:

- This is a good place for your donor to get more excited about your organization
- If there were three or fewer of such activities, describe each program service activity.
- The organization can report on **Schedule O** additional activities that it considers of comparable or greater importance, although smaller in terms of expenses incurred (such as activities conducted with volunteer labor).

4d Other program services. (Describe in Schedule O.)
(Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

TIPS:

- Describe in **Schedule O**
- There is no limit to the length of **Schedule O**
- Tell your story!!
- Large granting organizations will most likely read through your entire 990

Part IV Checklist of Required Schedules

	Yes	No
1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A</i>		
2 Is the organization required to complete Schedule B, Schedule of Contributors?		
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I</i>		

Part V Statements Regarding Other IRS Filings and Tax Compliance

	Yes	No
1a Enter the number reported in Box 3 of Form 1096, Annual Summary and Transmittal of U.S. Information Returns. Enter -0- if not applicable		

TIPS:

- Ensure that you file a complete return
- If you check yes to a question that requires an additional schedule, make sure it is in the return when you file
- Use **Schedule O** to explain any matters that may raise questions by donors

Part IV Checklist of Required Schedules

	Yes	No
1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A</i>	1	
2 Is the organization required to complete Schedule B, Schedule of Contributors?	2	
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I</i>	3	

Part V Statements Regarding Other IRS Filings and Tax Compliance

	Yes	No
1a Enter the number reported in Box 3 of Form 1096, Annual Summary and Transmittal of U.S. Information Returns. Enter -0- if not applicable		

TIPS:

- Not all questions are answered positively when you check “Yes”. Be sure to read the questions completely
- Audit Tip – almost every organization should be filing 1099 forms annually. Zero is probably NOT the right answer for Part V, Question 1a

IRS POSITIONS ON GOVERNANCE

“Good governance and accountability practices provide **safeguards** to help ensure that the organization’s **assets will be used consistently with its exempt purposes**.

This is a **critical** tax compliance consideration, especially for organizations that are subject to private benefit, excess benefit, and private inurement prohibitions.

In addition, well-governed and well managed organizations are **more likely to be transparent** with regard to their operations, finances, fundraising practices, and use of assets for exempt and unrelated purposes.”

Part VI Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Section A. Governing Body and Management

TIPS:

Section A:

- In general, a "yes" answer might be best explained in **Schedule O**
- Be careful, if you
 - Delegate or outsource control of your organization
 - Change your governing documents – use **Schedule O**
 - Had an embezzlement during the year
 - Remember that large granting organizations and the press will most likely read through your entire 990

Part VI Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Section A. Governing Body and Management

TIPS:

Section A:

- Every organization should be documenting their meeting minutes in writing
- Every organization should have a process for their governing body to review the 990 prior to it being filed
- Every organization should follow their process of providing the 990 to their governing board prior to filing the return

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

TIPS:

Section B & C:

- All questions except 16 (joint ventures), should be “yes”
- These include the organization having:
 - Conflict of interest policy and regular monitoring
 - Whistleblower policy
 - Document retention and destruction policy
 - Policy for review and approval of compensation

**SCHEDULE O
(Form 990)**

Department of the Treasury
Internal Revenue Service

Name of the organization

Supplemental Information to Form 990

Complete to provide information for responses to specific questions on
Form 990 or to provide any additional information.

▶ Attach to Form 990.

OMB No. 1545-0047

2009

**Open to Public
Inspection**

Employer identification number

TIPS:

- Use as many pages as you want
- Do not disclose personal information on the schedule
- Start with the good information about your organization
- Put sensitive material to the back and be sure to word things carefully
- Use page 1 to further explain why donors should give to your organization
- Most frequent readers will most likely be the press

Don't Ignore the Numbers

- Form 990 readers know what they are looking for:
 - High ratio of program expenses
 - Low ratio of fundraising and general and administration
 - Executive director compensation
 - Avoid deficits and large surpluses

Summary Items to Remember

- **Schedule O, Schedule O, Schedule O**
- Use clear and concise language that sells
- Involve your development director
- Consider how your return disclosures will look on the front page of the newspaper before you file
- Don't wait until the last minute to file – let your donor's know your financial house is in order by filing on time!!

Robert Lee, CPA
Robert Lee & Associates, LLP
226 Airport Parkway, Suite 350
San Jose, CA 95110
408.855.6770
rlee@rlallp.com
www.rlallp.com