

## MAKING THE MOST OF “OPEN TO PUBLIC INSPECTION”

*In search of value, and more donations, in your Form 990.*

### **Redesigned Form 990**

The nonprofit community is abuzz with the anticipation of the IRS revised *Form 990, Return of Organization Exempt From Income Tax*.

Already considered a bothersome chore by many organizations, this revised form requires even greater information with the goal of enhancing transparency and promoting compliance. From the tax professional’s perspective this will significantly increase the recordkeeping burden for public charities. Also, it will take anywhere from 50% to 200% MORE time to complete the redesigned 990 than the current 990.

It is easy to highlight the troublesome aspects of the new 990. However, if we take a mirror to the form it will reflect back to us a new way of viewing it. And if we can identify the positive points of these reporting requirements it may serve as a tool for enhanced board engagement, facilitate comparisons between similar nonprofit organizations, and lead to increased fundraising.

### **Transition Filing Relief**

There is a transition period for the filing of the revised Form 990. This will allow many smaller nonprofits to file Form 990-EZ in 2008 and 2009 based on the following:

- 2008 – gross receipts between \$25K and \$1M and total assets less than \$2.5M
- 2009 – gross receipts between \$25K and \$500K and total assets less than \$1.25M
- 2010 and beyond – gross receipts between \$50K and \$200K and total assets less than \$500K

### **Deconstructing the Draft 2008 Form 990**

Let’s take a look at some of the line-items of the *core return*; pages 1 through 11. There are additional Schedules A – O, and R. The completion and filing of these is dependent on the nature and activities of each nonprofit. Discussion here is beyond the scope of this writing.

Part I Line 1: This is the first item the reader will focus on. Here is an opportunity to *shine the spotlight on the wonderful activities of your organization* over the last twelve months. Fill this in, for example, with the number of meals served to the homeless, kids who learned to draw, and houses made livable. Be enthusiastic so the reader gets excited, too!

Line 6: Enter the number of volunteers supporting your organization. The more the merrier, but be as accurate as possible. This will demonstrate the interest the public has in your mission by donating their valuable time.

Lines 8 – 22: On these lines there are two columns allowing for a comparison between the prior year and the current year. Increases in contributions, grants, and investment income are good. Increases in salaries and professional fundraising expenses may not be.

Part III: This part allows your organization to tell its story. Describe your three largest (by expenses) program services. This narrative is in fact, as well as in essence, the core reason for your existence. This is your public relations face, what you want everyone to know about. *Don't be afraid of being proud about it and loud about it.*

Part IV: This checklist of required schedules will help your organization ascertain which schedules are required for a complete filing of Form 990. *The IRS does not like incomplete tax returns.* And neither should you.

Part VI: You know that governance is a hot topic with the IRS. You know there is value in good governance. But you have been too darn busy to deal with it. Well, now you have to tell everyone about:

- Does your organization have a written conflict of interest policy?
- Does your organization have a written whistleblower policy?
- How is compensation determined?
- Does your audit committee have a charter?

Still too busy? Show this to your board and get some help.

Part VII: Compensation reporting for the highest paid employees is now required for those receiving above \$100,000, up from \$50,000. The same figures are used for independent contractors. Good news for those of us in the Bay Area.

Part IX: The Statement of Functional Expenses is where most of the readers/analysts will breakout their calculators to judge, at a minimum, an organization's efficiency, and more likely, their donor-worthiness. *Take advantage of this part of the form* to show how a significant amount of expenses went to program service and a much lesser amount to management, general, and fundraising expenses. *Do you have an allocation policy?*

In summary, the redesigned Form 990 contains some very positive and motivating aspects. Take a close look at it along with your board. And let's all get on board!

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