

How to Leverage Form 990 to **INCREASE** **STAKEHOLDER TRUST**



2,568,790
976,819
869,870
121,000
421,045
179,984
690,144
279,991
96,420
244,353
75,380
846,679
237,689
563,980
45,000
461,771



Chazin & Company
NONPROFIT ACCOUNTING AND FINANCE SOLUTIONS

THE OFTEN-NEGLECTED MARKETING TOOL YOU MAY NOT REALIZE YOU HAVE!

What is this neglected tool? It's your IRS Form 990.

IRS Form 990 is more than just a tax form that many nonprofits must file every year. It's an opportunity to demonstrate to the IRS, as well as to current and potential stakeholders, that your organization is well-run and financially sustainable. It is also an opportunity to showcase key mission-centric programs.

WHAT IS FORM 990?

IRS Form 990 is your organization's tax return. Because your nonprofit has exempt status you don't have to pay taxes (with one possible exception). BUT you do have to file a tax return. Why? Because the IRS still wants to make sure you are running your organization properly and in line with its tax-exempt purpose. Be aware that there are instances where your nonprofit may owe taxes if the IRS deems certain income unrelated to your tax-exempt purpose.

It is also public information and, if completed correctly, can become another tool you can use to promote confidence in your organization and convince donors that funding your nonprofit will effectively support your mission. All you need to do is put some time and effort into a few of the informational disclosures.

Some 501(c) organizations are not required to file a Form 990. They are mostly churches or church-related organizations. In the resource materials included at the end of this guide you'll find a list from the IRS website.



IRS Form 990 is arguably the most important compliance requirement for nonprofits. The form has several purposes, including:

- **Maintaining Your Tax-Exempt Status:** The IRS wants to ensure you are not abusing your tax-exempt status and that your activities align with your organization's mission.
- **Providing an Overview of Your Organization:** Form 990 provides an inside look at your nonprofit's finances, programs, and governance structure.
- **Demonstrating Your Nonprofit's Financial Strength:** Form 990 is an opportunity to demonstrate your nonprofit's overall financial health to stakeholders so they can make an informed decision on whether to support your organization.

TYPES OF IRS FORM 990

There are 4 different types of Form 990:

1. The full Form 990
2. Form 990-EZ
3. Form 990-N (e-postcard)
4. Form 990-PF

The form your organization will be required to file is based upon total receipts and/or total assets (except for Private Foundations).

Receipts are the money you raise, collect or earn during the year. They are your income.

Assets can be found on your Statement of Financial Position. They include cash, investments, contributions receivable, inventory and property plant and equipment, to name a few. They are the things you own.

The IRS establishes thresholds for total receipts and assets that drive the type of Form 990 you are required to file. Keep in mind that these thresholds can and do change. The numbers below are accurate as of the 2021 tax year. Before you decide which form to file, please check the current thresholds at www.IRS.gov.



1. The full Form 990: The full Form 990 is required for nonprofits that have \$200,000 or more in total receipts OR \$500,000 or more in total assets.
2. Form 990-EZ: Form 990-EZ is for organizations that do not meet the full Form 990 thresholds.

Unless...

3. Form 990-N: Your organization had receipts of \$50,000 or less. Then you can file 990-N. It is completely electronic which means it cannot be filed in a paper format. If your organization is eligible to file a Form 990-N and you don't want to file electronically, you can always choose to file a Form 990-EZ or a full Form 990.
4. Form 990-PF: Finally, Form 990-PF is for private foundations regardless of gross receipts or assets.

DUE DATE

Your Form 990 is due 5 months and 15 days after your fiscal year accounting period ends. What does that mean? It means if your organization has a fiscal year end of December 31, your Form 990 would be due by May 15th of the following year.

Like individuals, nonprofits can extend their Form 990 filing date for 6 months using Form 8868.



HOW CAN YOU LEVERAGE YOUR FORM 990 TO BENEFIT YOUR ORGANIZATION?

IRS Form 990 is a comprehensive document that not only includes your nonprofit's financial information, but also details your organization's mission and programs. Remember Form 990 is public information and is the primary source of information that nonprofit watchdogs such as CharityNavigator, Guidestar, and GiveWell use to evaluate nonprofit organizations. Because a nonprofit's credibility is so intrinsically tied to its financial transparency and accountability, proper recording of transactions is crucial when it comes to fundraising and donations. Following are some of the sections of Form 990 that can support your revenue-generating and fundraising efforts:



The Mission Statement

Almost from the very beginning, Form 990 asks for your organization's mission and most significant activities. This is your opportunity to tell the public why you exist as succinctly and passionately as possible. THIS is your marketing opportunity; therefore, be creative and trumpet your accomplishments as loudly as possible! Take the time to tell the world about all the wonderful things you do.

Quantify results as much as possible. If you fed 50,000 homeless people last year, say that. If you obtained \$500,000 in donated food, put it down. If you achieved those results with 10,000 volunteer hours, include that as well. Donors love numbers and statistics because they help demonstrate your effectiveness.

If you need help with this, be sure to check out "Creating a Mission Statement Worksheet" included at the end of this guide. It walks you through the process of thinking about, writing and clarifying a mission statement.



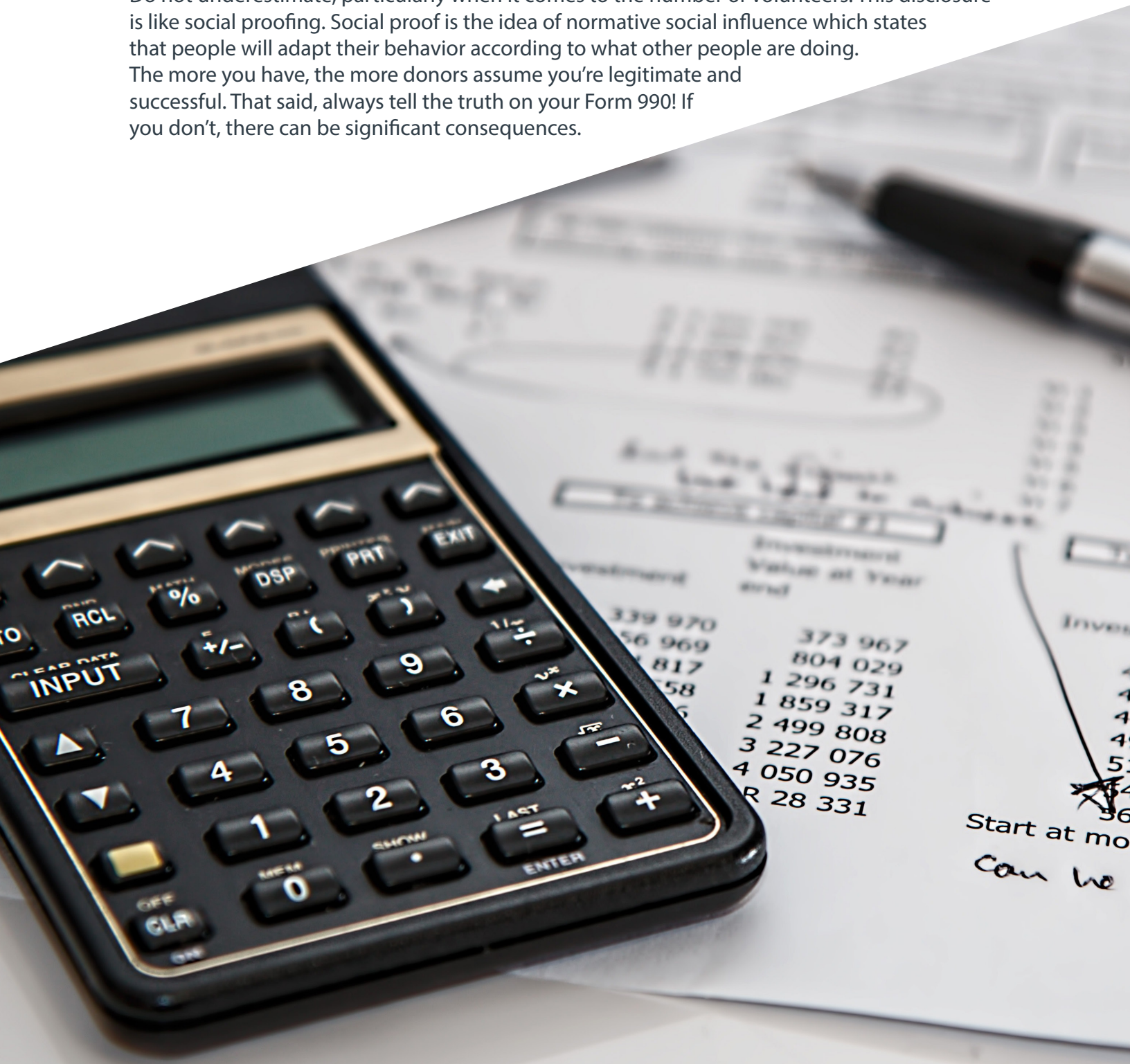
The Number of People Involved

Yes, the IRS wants to know all about the number of individuals involved in your nonprofit. More specifically, they want to know:

1. How many individuals are on your governing body (a.k.a. Board of Directors or Board of Trustees)
2. The number of people you employ
3. The number of volunteers you have

Do not underestimate, particularly when it comes to the number of volunteers. This disclosure is like social proofing. Social proof is the idea of normative social influence which states that people will adapt their behavior according to what other people are doing.

The more you have, the more donors assume you're legitimate and successful. That said, always tell the truth on your Form 990! If you don't, there can be significant consequences.



The Money

You'll be asked to disclose both a summarized and detailed version of your revenue/expenses/assets/liabilities and net assets. You will also be asked to report your revenues less your expenses. Most people think of this as a profit or loss. Please note that nonprofits are allowed to show a profit.

At the most fundamental level, providing detailed and accurate information for the following is valuable to the IRS as well as your stakeholders:

A. Revenue: You will be asked to list your organization's revenue sources such as income from donations and grants, membership dues, program services, and any investment income.

B. Expenses: Another section of Form 990 requires you to list your organization's expenses which include costs such as salaries, employee benefits, fundraising fees, and program expenses. Expenses on the IRS Form 990 fall into the following categories:

1. Programmatic
2. Fundraising
3. General & Administrative

Donors don't like it when a high percentage of every dollar they donate goes to General & Administrative or Fundraising. They're giving to further the program goals, not the overhead. Therefore, the more money you spend on program costs, the better. But again, be truthful. Just know this and consider it during budgeting and strategic planning.

C. Balance Sheet: An important component of Form 990 is a copy of your nonprofit's balance sheet. You will list your organization's total assets and liabilities to calculate your net assets.

D. Compensation of Leadership: The IRS also wants to understand your organization's compensation structure. That's why Form 990 has you list the salaries of your nonprofit's officers and directors, as well as key employees.





PROGRAM SERVICE ACCOMPLISHMENT

You'll be asked about your program service accomplishments, and this is another area where you'll have an opportunity to shine!

IRS Form 990 asks you to identify your three largest programs as measured by the money you spent on those programs. Then, they want to know what was accomplished through these programs.

This is the time to tell your story and to tell it well! All Form 990's are subject to public record. Donors, grantors, potential board members, creditors, bankers, vendors and service providers all have an interest in reviewing it. If you can quantify your accomplishments, all the better. Again, tell the story with numbers as much as possible.

Not surprisingly, each program description will be followed by disclosures for its unique revenue, expenses and grant dollars obtained.

Important Policies

IRS Form 990 has an overwhelming number of yes/no questions. Those that are most important are questions about the organization's policies. It will ask if you have policies in place such as the following:

1. Conflict of Interest
2. Whistleblower
3. Record Retention, to name a few

Conflict of interest and whistleblower are particularly important. Donors don't want to feel that their dollars will line the pockets of board members or CEO's (conflict of interest) or that they will be stolen (whistleblower). If you do not have these policies, now is the time to create them.

PERSONAL INFORMATION

Yes, Form 990 asks for personal information...a lot of personal information. This is where you have to be careful because it's easy to inadvertently disclose a little too much.

Previously, Form 990 asked about the number of people who help run your organization. Now they want to know the particulars such as:

1. OFFICERS/DIRECTORS/TRUSTEES

- a. Their names, even if they didn't receive any compensation
- b. The average hours per week each of them worked
- c. The reportable compensation they received, if any

2. THE HIGHEST COMPENSATED EMPLOYEES

- a. Their names and titles.
- b. The number of hours per week they worked.
- c. Their reportable compensation.

3. INDEPENDENT CONTRACTORS WHO WERE PAID MORE THAN \$100,000 IN A YEAR

- a. Their business names
- b. Their address

Remember, this will be public information.

So, if an independent contractor works out of their home, you may not want to disclose their home address. It is recommended you contact them to determine if they have a different mailing address.



DONORS

Definitely! The IRS wants to know about your largest donors. They will ask for the names, addresses and amounts contributed for donors who contributed \$5,000 or more during the fiscal year.

Personal information is supposed to be redacted before the data is made public but it's best if you take precautions on your end...just in case. To protect the personal addresses of your largest donors, you may want to list their business addresses or contact them to obtain alternate addresses they are comfortable providing.

CONCLUSION

IRS Form 990 is an important tool to help attract new donors and keep existing supporters confident in your organization's ability to fulfill its mission. The information above covers some of the more important sections of the Form 990, what it is, why it's important and the kind of information it requires. It's a LOT and may feel overwhelming right now; however, all you need to focus on is the mission and the program accomplishments. Use those opportunities to sell your organization to a potential donor. Put some time into it. Involve your program and marketing staff. Take advantage of this opportunity to showcase your organization and let an expert nonprofit accountant focus on the rest.

Written by Chazin & Company

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RESOURCE MATERIAL

Types of organizations that are NOT required to file a Form 990

1. A church, an interchurch organization of local units of a church, a convention or association of churches.
2. An integrated auxiliary of a church.
3. A church-affiliated organization that is exclusively engaged in managing funds or maintaining retirement programs.
4. A school below college level affiliated with a church or operated by a religious order.
5. Church-affiliated mission societies if more than half of their activities are conducted in, or are directed at persons in, foreign countries.
6. An exclusively religious activity of any religious order.
7. A state institution, the income of which is excluded from gross income under Section 115.
8. A corporation described in Section 501(c)(1) that is organized under an Act of Congress, an instrumentality of the United States and is exempt from federal income taxes.
9. A stock bonus, pension or profit-sharing trust that qualifies under Section 401 (required to file Form 5500, Annual Return/Report of Employee Benefit Plan).
10. A religious or apostolic organization described in Section 501(d) (required to file Form 1065, U.S. Return of Partnership Income).
11. A governmental unit or an affiliate of a governmental unit that meets the requirements of Revenue Procedure 95-48 PDF, 1995-2 C.B. 418.
12. A private foundation described in Section 501(c)(3) and exempt under Section 501(a) (required to file Form 990-PF, Return of Private Foundation).
13. A political organization that is a state or local committee of a political party, a political committee of a state or local candidate, a caucus or association of state or local officials, or required to report under the Federal Election Campaign Act of 1971 as a political committee.
14. An exempt organization (other than a private foundation) that normally has annual gross receipts of \$50,000 or less and therefore is eligible to file an annual electronic notice Form 990-N instead of an annual information return.
15. A foreign organization, or an organization located in a U.S. possession, that normally has annual gross receipts from sources within the United States of \$50,000 or less and therefore is eligible to file an annual electronic notice (Form 990-N instead of an annual information return).

Note: A Section 509(a)(3) supporting organization must generally file Form 990 or Form 990-EZ. The exceptions listed above are not available to a supporting organization unless it is an integrated auxiliary of a church (No. 2 above) or an exclusively religious activity of a religious order (No. 6).

source: <https://www.irs.gov/charities-non-profits/annual-exempt-organization-return-who-must-file>

CREATING A MISSION STATEMENT WORKSHEET:

Creating a mission statement:

Think about the following questions and try to answer them as clearly and concisely as possible. Once you do, you can put them all together and create a simple, yet elegant mission statement for your organization!

Why does your nonprofit exist? / What need are you addressing?

Whom do you serve?

How do you serve them?
