

Base Form 990 – What Does Form 990 Tell the General Public?

Most federally recognized not-for-profit organizations (NPOs) **must file Federal Form 990** *Return of Organization Exempt From Income Tax* (Form 990) if they have gross receipts greater than or equal to \$200,000 or total assets greater than or equal to \$500,000.

As discussed in a [previous article in our Understanding Form 990 Article Series](#), a NPO's Form 990 is available on [Guidestar.org](#) to anyone who wants to access it free of charge. Form 990 has extensive disclosures and can tell the reader a lot about a NPO. Certain disclosures on Form 990 can create problematic issues for a NPO. Other disclosures can communicate the importance of the organization to its beneficiaries, members, and others.

In short, Form 990 provides information to those who read it about the NPO's programs, financial health, fundraising activities, lobbying activities, political campaigning activities, tax compliance, policies, compensation of certain individuals and independent contractors, and grantees, among other items that could be of interest about the NPO.

In this article, we will walk through the 12 page base Form 990 and provide insight on certain parts of the form that should be of interest to a NPO's management and governing body.

Base Form 990

The base Form 990 is broken up into a heading section and 12 parts. Each part of Form 990 serves a separate function. The format of the base form was significantly overhauled by the IRS in 2007. With a few exceptions, the form remains substantially the same as it did following this overhaul.

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Page 1 of Form 990 is designed to provide a high-level snapshot of the organization, and is split into three sections:

- Heading
- Summary (Part I)
- Signature Block (Part II)

Heading

The heading provides basic information identifying the NPO, its contact information, tax-exempt status, and legal form, among other information.

Part I – Summary

The summary section is broken up into four subsections that concisely state what is found in other parts of the form:

Activities and Governance

This summary section begins with the NPO's mission or most significant activities. Keeping the text for this line item concise so that it "fits" on the provided space is a best practice but not required. There are also disclosures about the number of voting members of the NPO's governing body, number of employees, and the number of volunteers used by the NPO. This section also discloses whether the organization is generating revenue from activities unrelated to its exempt purposes. If revenue is generated from activities unrelated to its exempt purposes the NPO may need to file Form 990-T and potentially have to pay income tax on those activities.

Revenue

This section discloses information about the NPO's general sources of revenue.

Expenses

Here, total expenses are disclosed, along with certain expenses that are generally of more interest to the reader than other expenses, including:

- Grants paid
- Compensation and employee benefits
- Professional fundraising fees
- Total fundraising expenses

Net Assets/Fund Balances

Here, total assets, liabilities, and equity, or net assets are disclosed.

Part II – Signature Block

Form 990 generally must be signed by one of the following:

- Current President,
- Current Treasurer,
- Current Assistant Treasurer,
- Current Chief Accounting Officer, or
- Current other corporate officer (such as a tax officer) who is authorized to sign as of the date the return is filed.

This section is also where the paid preparer of Form 990 would sign, if applicable.

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Part III – Statement of Program Service Accomplishments

Part III describes the NPO's mission, states whether the NPO took on new program services, ceased services or programs, or made significant changes to existing programs. This section also provides space for narratives for its three largest program services (as measured by expenses) and any other program services.

NPOs should take care in crafting the language for the narratives in Part III. This is where Form 990 can serve as a key marketing tool. NPOs, and particularly 501(c)(3) and 501(c)(4) organizations, should ensure significant program accomplishments are disclosed, and that the disclosure is crafted in the best light possible. This is a section of the Form that management and the governing body should spend time on to ensure the NPO is

adequately and completely stating what its purpose is and how it is accomplishing its exempt purpose. A paid preparer can assist with the language and make suggestions but this is a section of the Form that management and the governing body should develop and update each year.

The instructions to Form 990 state that the following information should be included for each program service listed:

- Accomplishments should be described through specific measurements such as number of clients served, days of care provided, number of sessions or events held, publications issued, etc.
- The objective of the program should be described, both for the time period covering Form 990 and the long-term goal of the program.

PAGES 3 - 4

Part IV – Checklist of Required Schedules

Part IV consists of a list of questions that determine which of the 16 schedules will need to be attached to the base Form when it is filed, and what parts of those schedules will need to be completed. NPOs must fully understand the questions and ensure that these questions are answered properly to make certain a complete Form 990 is filed. Some of these questions can raise a “red flag” for the IRS. Some examples of the types of questions that need to be answered “yes” or “no” include:

- Did the NPO engage in political campaign activities?
- Did the NPO engage in lobbying activities?
- Does the NPO hold assets in endowments?
- Do the footnotes to the financial statements of the NPO contain a note that addresses the NPO’s liability for uncertain tax positions?
- Did the NPO obtain audited financial statements?
- Did the NPO conduct certain activities outside the United States?
- Did the NPO have expenses for professional fundraising services?
- Did the NPO report fundraising event gross income?
- Did the NPO report gross income from gaming activities?
- Did the NPO report grants or other assistance to others?
- Did the NPO have tax exempt bond issues outstanding?
- Did the NPO engage in certain types of transactions with officers, directors, trustees, key employees, donors, among others?
- Did the NPO receive noncash contributions?
- Did the NPO liquidate, terminate, dissolve, or cease operations?
- Is the NPO related to other entities?

Above is not a comprehensive list of the questions asked, but gives an idea of the information a reader can find out by reading a 990. Each “Yes” answer requires the NPO to complete one of the 16 additional schedules or a section of one of the schedules.

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Part V – Statements Regarding Other IRS Filings and Tax Compliance

Part V of the base Form 990 requires that the NPO disclose whether or not the NPO filed certain forms with the IRS, information from those forms, and asks about various aspects of tax compliance.

Common information reported in this section includes:

- Number of forms filed with Form 1096 *Annual Summary and Transmittal of U.S. Information Returns*. For most NPOs, this number will include the number of Form 1099-MISC forms filed, which reports amounts paid to certain nonemployees.
- Whether or not the NPO complied with backup withholding rules.
- Whether the NPO filed a 990-T *Exempt Organization Business Income Tax Return (and proxy tax under section 6033(e))* when required.
- Whether the NPO has an interest in, signature or other authority over a financial account in a foreign country.
- Whether the NPO was a party to a prohibited tax shelter transaction.

- For NPOs that can receive deductible contributions, whether or not the NPO provided donors notification of value of goods and services provided for payments received in excess of \$75 partly made as a contribution and partly for goods and services provided.

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Part VI – Governance, Management, and Disclosure

Part VI provides information relating to the governing body and management of the NPO, as well as certain NPO policies. Questions answered and items disclosed in this section of note are:

- Do certain members of management and/or those charged with corporate governance have a family or a business relationship with each other?
- Did the NPO make certain changes to its governing documents (i.e., articles of incorporation, bylaws, etc.)?
- Did the NPO become aware of a significant diversion of the NPO’s assets?
- Are minutes or other documentation allowed by state law prepared on a timely basis for meetings of the governing body and any committees with the authority to act on behalf of the governing body?
- Was each voting member of the governing body provided a complete Form 990, including all required schedules prior to filing the form?

- What is the NPO's process to review Form 990?
- Has the NPO adopted the following policies in writing?
 - Conflict of interest
 - Whistleblower
 - Document retention and destruction
- What is the process for determining the compensation of the top management official and certain other members of the NPO's management?
- For 501(c)(3) organizations, how does the NPO make its application for exempt status (Form 1023), Form 990, and Form 990-T (if applicable) available for public inspection?

PAGES 7-8

Part VII – Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Part VII of the base Form 990 lists all officers, directors, trustees, certain members of the NPO's management that served the NPO, among others at any point during the tax year covered by the Form 990. It also requires disclosure of individuals receiving compensation who formerly held these positions. Information about compensation and certain benefits of those listed in this section is also disclosed. Form 990's instructions provide a detailed list of what type of compensation and benefits need to be reported in which column, including compensation from organizations related to the NPO. Depending on the level of

compensation and status of those listed, further disclosure of compensation may be required in Schedule J.

Part VII also requires the NPO to list compensation information for amounts paid to independent contractors receiving more than \$100,000. For both employees and contractors, payments reported in Part VII are based on what they received in the calendar year, not the NPO's tax year. This means that Part VII won't necessarily reflect the same compensation as reported elsewhere on Form 990.

Since Form 990 is a publicly accessible document, Part VII is usually a part of Form 990 that receives scrutiny both internally and externally. The NPO should ensure it understands what is reported in this section. Many NPOs use other organization's Form 990s to assist in determining the compensation of their executives. Others with a myriad of motivations may focus on this section of Form 990, including watchdog groups, disgruntled employees, etc.

PAGES 9 to 12

Parts VIII to XI report the NPO's revenues, expenses, assets, liabilities, and net assets/equity and are provided on pages 9 to 12 of the base Form 990.

Part VIII – Statement of Revenue

In Part VIII, revenues are broken out by type (i.e., contributions, program service revenue, and other types of revenue). Revenues are also categorized based on whether it is:

- Related or exempt function revenue,
- Excluded from taxation under sections 512 – 514 of the Internal Revenue Code (most interest and dividend income falls into this category), or
- Unrelated business revenue. Depending on the level of unrelated business revenue, the NPO may be required to file Form 990-T.

Part IX – Statement of Functional Expenses

In Part IX, expenses are classified by natural (i.e., salaries, payroll tax, rent, travel, etc.) and by function (program service, management and general, and fundraising). Note, however, that only 501(c)(3) and (c)(4) organizations are required to categorize expenses by function. If expenses exceed thresholds for certain line items (i.e., grants and professional fundraising service fees paid to non-employees), the NPO will be required to report more information in schedules attached to the base Form 990.

Part X – Balance Sheet

Assets, liabilities, and net assets/equity are reported in Part X. If certain line items exceed thresholds established by the IRS, the NPO will be required to prepare additional schedules and attach them to Form 990. The attached schedules will disclose more information about those items. Common items requiring additional reporting include loans to or from officers, directors, trustees and key employees, depreciable assets, and non-traditional assets or liabilities.

Part XI – Reconciliation of Net Assets

Part XI reconciles the change in net assets/equity to total revenues and expenses reported in parts VIII and IX. Certain activity, such as corrections of errors in prior periods, losses on uncollectible pledges, refunded contributions and program service revenue, and reversal of grant expenses, that are not reported in Part VIII and Part IX, but are included in net assets/equity in Part X are presented here to reconcile the change in net assets.

Part XII – Financial Statements and Reporting

In Part XII of the base Form 990 the NPO reports information about its accounting method used to prepare Form 990. Here it is noted if the NPO's financial statements were compiled, reviewed, or audited by an independent accountant, and whether or not the financial statements were issued on a separate basis, a consolidated basis, or both. This section also requires the NPO to disclose how the NPO oversees the audit, review, or compilation and whether or not the NPO was required to have a Single Audit.

Contact

Gabriel “Gabe” Sumner
Vice President
630.954.1400
sumner@seldenfox.com
www.seldenfox.com

