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## ON THE NOT-FOR-PROFIT FRONT

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### REVISED 990 - OVERVIEW

The IRS has updated Form 990 for the first time in nearly 30 years. The Form 990 has now become one of the major sources of information donors and others have to gather information and evaluate performance of nonprofit organizations. The additional information provided on the revised Form 990 will also allow the IRS to better target nonprofit organizations that might be engaged in taxable or prohibited transactions.

The 990 has been revised to have an 11-page core form and up to 16 supplemental schedules depending on the organization's activity. Nearly all nonprofits will be required to file at least 5 additional schedules; the other schedules will vary from organization to organization.

Plan on additional staff time, which could be significant, depending on how many changes might be needed; plan on additional costs from your CPAs for the additional schedules. We have seen estimates of up to 150 hours for the organization to understand the new reporting and complete the forms.

The information provided here is just a portion of the revisions to the Form 990. The changes are very substantial so you may want to download the 2008 forms and instructions yourself to see the revised format. We would be happy to discuss how these changes will affect your organization as well. ♦

### REVISED 990 - WHO DO THE CHANGES APPLY TO?

Fortunately, smaller organizations are allowed to phase in the more complicated Form 990 and are allowed to use the much simpler Form 990-EZ. The Form 990-EZ is now a 4-page form and it has been slightly revised as well. In addition, several of the new schedules may be required even if Form 990-EZ is completed.

An organization can:

- file a **2008 990-EZ** if: less than \$1,000,000 gross receipts and less than \$2,500,000 total assets
- file a **2009 990-EZ** if: less than \$500,000 gross receipts and less than \$1,250,000 total assets
- file a 2010 and future year 990-EZ if: less than \$200,000 gross receipts and less than \$500,000 total assets♦

### REVISED 990 - WHAT NEW INFORMATION WILL NEED TO BE TRACKED?



We have summarized some of the more significant new items that will be needed for the 2008 Form 990. Please note this is not a complete list as the changes are very substantial. You may want to review the 2008 Form 990 and additional schedules to review the impact for your organization. The forms and instructions are available from the IRS's website at: <http://www.irs.gov/charities/article/0,,id=185561,00.html>

The following are some of the major new items to be disclosed:

- List 3 largest programs (by expenses) but must now list the earned revenue for these programs as well.
- Total number of volunteers (this can be estimated).
- There have been changes to the grouping of expenses:
  - Occupancy expenses are now to include property insurance and mortgage interest.
  - Office expenses are now to include telephone, printing, postage, equipment rental.
  - Advertising and information technology are new categories.

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**REVISED 990 - WHAT NEW INFORMATION  
WILL NEED TO BE TRACKED?  
(continued)**

Miscellaneous expenses cannot exceed 5% of the total expenses.

You can only use 5 lines for other expenses.

Secured and unsecured debts need to be segregated from each other.

Compensation information required may either be more or less than it was in the 2007 Form 990.

All organizations must now list the compensation for key employees.

Officers are now defined to include the top management official and the top financial official regardless of level of compensation.

Disclosure of compensation for other employees now only required if paid over \$100,000 (up from \$50,000).

Compensation information is based on the W-2 for the year ending during the fiscal year (which means it will not match the general ledger).

If compensation for anyone exceeds \$150,000, you must disclose if any of the following were paid: first class travel, travel for companions, tax gross-ups, expense accounts (excluding accountable plans), housing allowances, health or social club dues, personal services (maid, etc.).

If compensation for anyone exceeds \$150,000, you must answer whether the organization uses any of the following practices: compensation committee, compensation consultant, Form 990 of other organizations, written employment contract from other organizations, compensation survey, and approval of board or compensation committee.



On the donor schedule, anonymous can no longer be listed or the return will not be considered timely filed.

The public support testing for 501(c)(3) organizations is now based on a 5 year period and is now on the same basis as the rest of the Form 990 (previously it was a 4 year period and was on the cash basis even if the rest of the 990 was accrual basis). Note: This may require significant effort to convert the prior cash basis information (including the donor information) to the accrual basis.

Any organization with an endowment either quasi (board designated), temporary or permanent will need to provide a reconciliation of the endowment fund activity for the year.

There is a question about whether the organization has its financial statements audited. You are to answer “No” to this question if your audited statements are of a combined entity and no separately audited statements of each organization are completed. This seems odd since the combined statements were audited. There is a chance to explain this situation with the Form 990, but answering “No” to the question will seem strange.

If your special events raise more than \$15,000 in gross revenue, you will be required to provide more detailed information about the events and their costs.

If you make grants that exceed \$15,000 during the year, you will need to track and disclose the donee organization name, address, ID #, the tax-exemption status (e.g., 501(c)(3)) and the nature of the grant. Grants to individuals can be summarized by the nature of the grant: No detailed information of the recipient is required. You may want to use IRS Form W-9, Request for Taxpayer Identification Number and Certification, to gather this information.

If the organization receives over \$25,000 of non-cash contributions, a detailed schedule of them by type is required. For this purpose, publicly traded securities are considered non-cash contributions. ♦

**SIGNIFICANTLY EXPANDED  
FINANCIAL STATEMENT  
DISCLOSURES FOR  
ENDOWMENTS**

Effective for fiscal years ending after December 15, 2008, the financial statement footnotes disclosures for endowments are substantially expanded. These disclosures are required of all endowments, whether donor restricted or board-designated.

Organizations will be required to disclose the spending policy for making expenditures from endowment funds.

Disclosures will be required of the investment policies for endowment funds, including the return objectives, risk parameters, how those objectives related to the spending policies and strategies for achieving the objectives.

Organizations will need to provide the composition of the endowment by net asset class and segregate in the disclosure the portion of the endowment that is board-designated.

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## SIGNIFICANTLY EXPANDED FINANCIAL STATEMENT DISCLOSURES FOR ENDOWMENTS (continued)

A reconciliation of the changes in the endowment activity will be required. This reconciliation must show the beginning and ending balances, investment return broken down into components, net appreciation or depreciation, contributions, expenditures, reclassifications and other changes.

These disclosures will be significantly longer and more detailed than they have been in the past. We would be happy to discuss this further with you to ensure your footnote disclosures will be sufficient. ♦

### REVISED 990 - WHAT POLICIES DO WE NEED TO ADDRESS?

The 2008 Form 990 has a new section on the core form regarding governance. You may want to review the following list of policies identified in the revised form and adopt them if you have not already done so. By doing so, you will be able to answer “Yes” to the question posed on the return. There is no requirement that any of these items be addressed. Therefore, a “No” answer is not inappropriate; however, the IRS has deemed these to be “best practices” and users of the Form 990 will have your answers pointed out to them. For each policy, you will need to implement it by your fiscal year end in order to be able to answer yes on the Form 990. The following are the policies you may wish to address:

#### Written policies:

- A formal mission statement of the organization.
- Written policy governing activities of any local chapter, branch or affiliate.
- Written whistleblower policy.
- Written document retention and destruction policy.
- Conflict of Interest (COI) policy which discloses annually any potential conflicting interests and describe how the compliance with COI policy is enforced.
- Policy for evaluating participation in joint ventures (only required if participating in one).

#### Other recommended policies:

- Establish a process to identify whether an officer, director, trustee or key employee had any family or business relationships with any other.
- Establish a process of maintaining contemporaneous documentation of meetings or written actions of the governing body or

committee to act on behalf of the governing body.

Form (or designate) a committee to assume responsibility for audited, reviewed or compiled financial statements.

Provide a copy of Form 990 to the governing board prior to filing.

Establish a process for reviewing Form 990. (Must be described in the return.)

Establish a process for how Form 990, 990-T (501(c)(3)s only) and Form 1023 (or Form 1024) are made available to public (required by law now).

Establish a process for how the governing documents, COI policy and financial statements are made available to the public (not required to be made available by law).

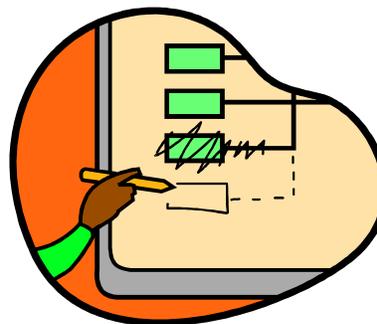
Establish a process for determining compensation of top management officials, other officers and key employees (including review by independent persons, comparability data, contemporaneous substantiation).

If anyone receives over \$150,000 of compensation, establish a written policy regarding payment of first class travel, travel for companions, tax gross-ups, expense accounts (not accountable plans), housing allowances, payment for business use of personal residence, health or social club dues (includes WAC or similar), personal services (maid, etc.).

Establish a gift acceptance policy that requires review of any non-standard contributions. (Only required to answer if over \$25,000 of non-cash contributions received.)

If you need samples for any of these policies, we have many samples and suggestions, just let us know.

Since your key employees will now have their compensation and benefits listed publicly on the 990, it might be a good idea to send a letter or memo to each of them, since other employees, relatives or other acquaintances will have access to that information if they know how to obtain it. ♦



## SIGNIFICANT CHANGES COMING FOR 403(b) PLANS

Effective for plan years that end December 31, 2009 or later, plan sponsors will be required to maintain plan documents for all 403(b) plans. Under the prior rules, the requirements only applied if there were employer contributions.

Another clarification that could add significant cost to nonprofits sponsoring 403(b) plans, ending December 31, 2008 or later, is the separate pension plan audit required if there are generally over 100 participants in the plan. A participant for this purpose is anyone who is eligible to participate in the plan as well as former employees who still maintain balances in the plan. An exception allows a plan that was not audited in the prior year to remain unaudited until the number of participants exceeds 120.

If your organization is close to this audit requirement, and your plan allows it, you may want to force former employees with balances of less than \$5,000 in the plan to roll over their balances, thereby reducing your number of plan participants. **If your organization might have the pension plan audit requirement, you should discuss this matter with your auditor as soon as possible.** ♦

## IRS EXPANDS AUDITS FOR EXEMPT ORGANIZATIONS

The IRS has increased the resources it allocates to auditing exempt organizations. Generally, there are two types of examinations the IRS may initiate.

First is a correspondence audit. These audits are limited in scope and focus on one or two items on a return. They are mostly conducted via phone and mail correspondence, hence the name.

The second type is the field examination. This is the fuller more intensive audit that most of us think of when audits are mentioned. These audits will generally cover many more issues, and more depth to the issues raised, face to face interaction with an IRS agent, involve more issues on the return and will require more time preparing and answering IRS questions.

If you have any contact from the IRS, we would be happy to assist you to ensure you present your information in the proper light.

## HAVE YOU REVIEWED YOUR GUIDESTAR INFORMATION PROFILE?

GuideStar is currently one of the largest charity databases. GuideStar's information comes primarily from the 990s filed with the IRS. GuideStar requests the information in bulk directly from the IRS and then updates their GuideStar Information Form (GIF) for each nonprofit organization. GuideStar itself is a nonprofit organization with a mission of gathering and publicizing information about nonprofit organizations.

In addition to the GIF, GuideStar has resources available on their website and sends out a monthly email newsletter with helpful topics in it.

Either to review your organization's information or to use the resources GuideStar makes available, you can visit their  **GUIDESTAR** website: [www.guidestar.org](http://www.guidestar.org). ♦

ALWAYS FEEL FREE TO CONTACT US!  
Call or e-mail us with your ideas for future articles on topics of interest or with names of others who may want to receive *On The Not-For-Profit Front*. Also, note that previous issues of all our newsletters, which include *TMA Report* and *Small Business Outlook*, are included in the newsletter section on our website.

## THE MYERS ASSOCIATES, P.C. STAFF DIRECTORY

Following is a listing of our e-mail addresses and telephone extensions. To reach us, dial (206) 623-6116, wait for the greeting and press the extension of the person you would like to reach.

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