

MANAGING NOT-FOR-PROFITS

A guide for
board members
and executives
of not-for-profit
organizations

Presented by



***Redesigned IRS Form 990:
What Tax-Exempt Organizations
Need to Know***

Contents

Page 3

Introduction

Volunteer Board Leaders: What This Means to You

Page 4

Background

Page 5

Why Are These Changes Being Made?

Page 6

Examples of New Questions

If You Have Questions

Page 7

Association Management Companies

AMC Institute

AMC Institute would like to recognize and thank the following individuals for lending their expertise and counsel to this issue of *Managing Not-for-Profits*.

Bill Barnes, CPA, CMA
Givens & Barnes

C. Michael Deese, Esq.
Howe & Hutton, Ltd.

Murray N. Greenberg, CPA, CVA
Robin Kramer & Green, LLP and Senior Tax
and Business Services, LLC

Hugh Webster, Esq.
Webster, Chamberlain & Bean

INTRODUCTION

The Internal Revenue Service (IRS) recently issued a redesigned Form 990, the annual return required to be filed by tax-exempt organizations to report information about their operations. This is the first time the form has been overhauled since 1979. As a result, exempt organizations must provide much more information about their organizations beginning with the 2008 tax year (the form that is filed in 2009).

Although some provisions won't be mandatory until the 2009 tax year and reported in 2010, exempt organizations need to begin preparing now for the greater reporting requirement.

It is also estimated that tax return preparation costs will double or triple for most organizations in the first year using the new form, and may remain higher even in subsequent years.

Volunteer Board Leaders: What This Means to You

As a volunteer board leader, you should be familiar with what the IRS is requesting from tax-exempt organizations as part of the annual return. For example, the IRS wants to know about an organization's relationships with the directors on its board, and directors' relationships with each other. Exempt organizations also will have to disclose more information about whether the organization has written policies covering conflicts of interest, whistleblowers and document retention and destruction. Organizations will have to describe how it enforces some of those policies.

The members of a board should request copies of the completed Form 990 and review prior to submission to the IRS. If any member of the board has a concern regarding what is being submitted, the board member should document their concern in written form to the chief executive of the organization with a copy to the chairman or president of the board.

A volunteer board member may also consider consulting a CPA and legal advisor to protect their rights.

BACKGROUND



The IRS wants to know more about an exempt organization's business transactions and joint ventures; its relationships with the directors on its board; and directors' relationships with each other.

Exempt organizations will have to disclose more information about their officers' compensation; political campaigning and lobbying activities; and whether the organization has written policies covering conflicts of interest, whistleblowers and document retention and destruction. Each exempt organization will have to describe how it enforces some of those policies.

Exempt organizations will have to disclose more information.

The redesigned Form 990 consists of an 11-page core form to be completed by each Form 990 filer. In addition, the redesigned form's 16 schedules are designed to require reporting of information only from those organizations that conduct particular activities.

Among the highlights of the new form are the following:

- A summary page providing the organization's identifying information and a snapshot of the organization's key financial, compensation, governance and operational information.
- A portion of the form requiring governance information including the composition of the board and certain other governance and financial statement practices.
- Schedules that will focus reporting on certain areas of interest to the public and the IRS: fundraising, compensation, hospitals, tax exempt bonds and non-cash charitable contributions.

WHY ARE THESE CHANGES BEING MADE?

Tax-exempt associations and charities are involved in far more sophisticated and complex business arrangements today than in 1979 when Form 990 was last revised.

The IRS believes that the redesigned form will promote greater accountability.

Another significant reason is the element of scandal.

In the past five years or so, a number of exempt organizations around the country have been accused

The IRS believes that the redesigned form will promote greater accountability among exempt organizations.

of abuses: inflated salaries and severance packages, insider deals with board members, and excessive travel and entertainment reimbursements.

The changes also reflect the rise of the Internet, which makes it easier to gather, retain and report detailed information.

The IRS has decided to become more involved in the area of not-for-profit governance, and the new questions on the revised Form 990 regarding board composition, conflict of interest, etc., are a reflection of that effort.

The new Form 990 will ask for relationships not just between these board members and the organization, but between the board members themselves.



EXAMPLES OF NEW QUESTIONS

Examples of the new questions/entries that will be required on the Form 990 beginning in 2009:

- Enter the number of voting members of the governing body.
- Enter the number of independent voting members of the governing body.
- Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?
- Did the organization delegate have control over management duties customarily performed by or under the direct supervision of officers, directors, trustees, or key employees to a management company or other person?
- During the tax year, did any person who is a current or former officer, director, trustee, or key employee:
 - Have a direct business relationship with the organization (other than as an officer, director, trustee, or employee), or an indirect business relationship through ownership of more than 35% of another entity (individually or collectively with another person(s) listed in Part VII, Section A)?
 - Have a family member who had a direct or indirect business relationship with the organization?
 - Serve as an officer, director, trustee, key employee, partner, or member of an entity (or a shareholder of a professional corporation) doing business with the organization?
- Was a copy of the Form 990 provided to the organization's governing body before it was filed? All organizations must describe in Schedule O the process, if any, the organization uses to review the Form 990.
- Does the organization have a conflict of interest policy?
- Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?
- Does the organization regularly and consistently monitor and enforce compliance with the policy?
- Does the organization have a written whistleblower policy?
- Numerous compensation questions... applicable to the compensation of the Executive Director, CFO or Treasurer and other key employees.

If You Have Questions

More information is available on the IRS website at www.irs.gov/charities.

AMC Institute provides a list of Association Member Companies that are available to answer questions for your specific industry. Please go to www.amcinstitute.org/directory/companyList.cfm.

In addition to helping navigate the 990, AMCs can provide assistance to not-for-profit organizations in developing whistleblower, conflict of interest and document retention policies.

ASSOCIATION MANAGEMENT COMPANIES

Association Management Companies (AMCs) are specialists in managing not-for-profit organizations and associations providing integrated headquarters and staff solutions for industry trade groups, professional societies and charitable foundations. AMCs handle a variety of functions from managing the day-to-day operation of a not-for-profit organization to providing a range of specialized services from strategic planning to communications to advocacy. AMCs serve as partners to not-for-profit and association staff providing solutions and resources enabling organizations to meet and exceed their goals.



AMC INSTITUTE



AMC Institute represents the association management company industry and boasts more than 150 AMC members throughout the U.S., Canada, Europe and Asia. AMC Institute promotes service excellence among association management companies, and strives to raise awareness of a burgeoning AMC industry by establishing its member companies as the recognized and preferred choice for quality association management and professional services. For more information, visit www.AMCInstitute.org.



AMC Institute
100 N. 20th Street
4th floor
Philadelphia, PA 19103-1443
215-564-3484
Info@AMCInstitute.org
www.AMCInstitute.org

Copyright 2008.

All rights reserved.