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## Preparing Form 990

The IRS has a many page instruction brochure for Form 990 and Form 990-EZ. SCORE recommends using both the IRS instruction brochure and this write-up when preparing your Form 990. There still remains some duplication, but, for the most part, this write-up tries to clarify some of the more difficult portions. Forms 990, 990-EZ, Schedule A, Schedule B and the IRS Instructions are all available on the web site: [www.IRS.gov](http://www.IRS.gov).

### Overall Information

**A. Filing Requirements** - Tax-exempt organizations, nonexempt charitable trusts, and Section 527 political organizations are required to file Form 990 or 990-EZ unless annual gross receipts are normally less than \$25,000. If an organization's gross receipts during the year are less than \$100,000 and its total assets at the end of the year are less than \$250,000, it may file Form 990-EZ. Private foundations must file Form 990-PF. (Note: "Normally less than \$25,000" uses the average of gross receipts for the last 3 years. For organizations less than 1 year old, the limit is \$37,500 in receipts or pledges and for organizations 1 to 3 years old, the limit is an average of \$30,000.)

### B. When to File

1. By the 15th day of the 5<sup>th</sup> month after the organization's accounting period ends
2. Two 3-month extensions are available. (Form 8868)
3. Late filing penalty of \$20 a day, not to exceed the smaller of \$10,000 or 5% of the gross receipts for the year unless the organization can show the late filing was due to reasonable cause. Organizations with gross receipts exceeding \$1 million are subject to a penalty of \$100 a day, not to exceed \$50,000.

### C. Public Inspection Rules

1. Copies of the last three years must be made available to the public for inspection (specific timing restrictions apply.)
2. General public access to all Form 990s sent to the IRS is available on [WWW.GuideStar.org](http://WWW.GuideStar.org). The information is provided directly by the IRS to the GuideStar organization.

### D. Other Potential Requirements

1. Form 990-T - A tax-exempt organization must file Form 990-T if it has gross income from an unrelated trade or business of \$1,000 or more. Unrelated trade or business income is the gross income derived from any trade or business regularly carried on and not substantially related to the organizations exempt purpose or function.
2. State Requirements - Tennessee requires Franchise, Excise tax to be paid only if the tax-exempt organization has unrelated trade or business of \$1,000 or more. However, a copy of Form 990 is required when applying for Tennessee Charitable Solicitations.

### Form 990 - General Information

**Line K** - Organizations that receive a Form 990 packet and label from the IRS but do not meet the filing requirements should mark Box K, leave the remainder blank, sign the return, and file with the IRS. This may prevent a notice from the IRS for failure to file and ensures the organization is registered with the IRS as an exempt organization in Publication 78, Cumulative List of Organizations.

**Form 990 - Part I. Activities and Operational Information** - All organizations filing Form 990 with the IRS or any state must complete this section, unless Box K is checked.

**Line 1 - Contributions Received** - Revenue from contributions received, whether cash or non-cash. Contributions of services (“gifts in-kind”) are not reported on Form 990.

**Form 990 Part II. Statement of Functional Expenses** - Expenses should be allocated between columns (B), (C), and (D) by category and major function. For example, if an your director spends 50% of his/her time on program services, 40% on general management, and 10% on fund-raising, his/her salary and benefits should be allocated between all columns respectively.

**Column (B), Program Services** - Expenses incurred while performing tax-exempt activities.

**Column (C), Management and General - Expenses** - Related to the organizations day-to-day operation, such as personnel, accounting, legal, general insurance, and office management costs.

**Column (D), Fund-raising** - Costs of soliciting the contributions reported on line 1.

**Line 22 - Grants and Allocations** –Grants and donations to other organizations and scholarships. Attach a schedule with recipients name, address, relationship, and amount (cash and non-cash).

**Line 43 - Other Expenses** - Expenses not covered in lines 22-42. Many organizations tend to report a high percentage of their expenses on this line and detail those expenses on an attachment.

**Form 990 Part III. Statement of Program Service Accomplishments** - This very important section describes activities performed during the year that justify the organizations tax-exempt status. Provide as much detail as possible given that the IRS, donors, potential donors, members of the community, media, etc. are looking at this statement to see how the organization is benefiting its community.

**Form 990 Part IV. Balance Sheet** - Shows assets, liabilities, and net assets. Column (A) should tie to end of the year balances on the previous years Form 990. Column (B) will agree to the audit, if applicable.

**Line 67 Unrestricted Assets** - Assets currently available to fulfill your tax-exempt purpose. Note that they are not necessarily liquid assets (i.e., cash and assets easily turned into cash). For example, land, buildings, and equipment bought with unrestricted funds fall into this category.

**Line 68 Temporarily Restricted Assets** - Assets for use only for specific purposes or at a specific time indicated by the donor or as part of an implicit promise by the organization. For example, if a donor sends an organization money solicited to help the victims of a particular natural disaster, then the organization is expected to spend the money in that manners.

**Line 69 Permanently Restricted Assets** - Assets with donor-imposed restrictions that do not expire. For example, a donor might make a contribution with the stipulation that investment proceedings from the contribution may be spent but not the principal.

**Form 990 Part IV-A & B. Reconciliation of Audited Financial Statements to Return** - To reconcile income and expenses per audited financial statements to the amounts reported on Form 990. Differences may include expenses netted with revenue on Form 990 (lines 6b, 9b, and 10b) and unrealized gains/losses on investments.

**Form 990 Part V. List of Officers, Directors, Trustees, and Key Employees** - Reports the people who are responsible in whole or in part for the organization's operations. A "key employee" is essentially an employee who exerts a significant influence on an organization's finances or activities. Entries in Part V should include titles, hours worked per week, and compensation, if any.

**Form 990 Part VI. Other information** - Contains a number of questions regarding the organization's operations during the past year. "Yes" usually requires additional explanations and/or schedules. Ensure all questions have a response even if "N/A."

**Line 83b -Written Substantiation to Donors** - For contributions of \$250 or more, a donor's charitable deduction is disallowed unless a contemporaneous written acknowledgment of the donation is obtained from the recipient organization. The acknowledgment must include the amount of cash and a description of any property contributed, and a statement concerning whether any goods or services were provided in return for the contribution. If the organization did provide something in return for the contribution, a description and good faith estimate of the value of the item(s) provided should be given to the donor.

**Form 990 Part VII. Income Analysis** - Provide a breakdown of revenue from Part I between unrelated business income, excluded income, or related/exempt function income. Amounts should tie in total to Part I except for contributions, which are not included in Part VII. Business codes for unrelated business income and exclusion codes for excluded income may be found in the Form 990 instructions.

**NOTE: Form 990 has two schedules: Schedule A, Supplementary Information and Schedule B, Schedule of Contributors. They are not included with the Form 990 or 990-EZ so you need to obtain them separately. The IRS has a separate 14 page instructions sheet for Schedule A. The instructions for Schedule B are included with the form.**

*The information in this handout is general in nature and was current as of June 1, 2004. The handout was partially taken from material supplied by a presentation by Pershing Yoakley & Associates, a CPA firm specializing in providing assistance to non-profit organizations. Their telephone number is (865)673-0844 and their web site is [www.pyapc.com](http://www.pyapc.com)*

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