



# Advantage:nfp

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The Crowe Advantage: Not-for-Profit News & Events

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## Make Form 990 Your Mission Statement

By Scott R. Nickerson

For many not-for-profit organizations, the need to complete and file tax returns using IRS Form 990 can be an unpleasant fact of corporate life — an annoying distraction from their “real” work. But Form 990 is much more than a tax return. It is a powerful tool you can use to communicate your organization’s mission to prospective donors, the media and the public, and to demonstrate how effectively your organization uses its funds.

Today, not only are you required to show your last three Forms 990 to anyone who asks to see them, but virtually every 501(c)(3) organization’s returns are readily available on the Internet.<sup>1</sup>

For many potential benefactors, Form 990 is the only source available for information about your organization, so it is important to make the most of this opportunity to get your message across. In addition, many organizations that rank or rate not-for-profits rely on the financial and nonfinancial information contained in Form 990.

### Showcase Your Accomplishments

One of the most important sections of Form 990 is Part III, the *Statement of Program Service Accomplishments*. This is where you describe your primary exempt purpose — your mission statement — and tout your achievements.

You list your most important programs, describe each program’s purpose and how much you spent on it. You also discuss each program’s achievements, both measurable — such as clients served, students taught, days of care or publications issued — and intangible.

Part III is one of the few parts of Form 990 that calls for an open, qualitative narrative. It gives you an opportunity to communicate your mission to readers and to put the financial results in context. The statement should be clear and concise, but you need not squeeze it into the small space provided on the form. Feel free to attach extra pages if needed.

Because many prospective donors will rely on this statement, you should give it the same care and attention as a grant proposal. Get input from key people in your organization including your communications, development and

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<sup>1</sup> See [www.guidestar.org](http://www.guidestar.org).



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marketing executives. Consider attaching additional documents to your return, such as annual reports or outcomes report cards.

## Do Not Ignore the Numbers

Your narrative is critical, but the numbers also tell an important story. Form 990 users are getting more sophisticated at reading between the lines.

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They examine the allocation of expenses among program, management and fund-raising activities. They scrutinize executive and director compensation.

They search for clues that suggest potential self-dealing or other improprieties.

Readers know to look for a high ratio of program-to-total expenses and a low fund-raising ratio. So it is important to review your expense allocation policies and procedures and be sure that program expenses are reflected accurately.

Pay special attention to compensation, which is the biggest expense for many organizations. Too often, organizations misclassify time spent by their executive directors and others developing and overseeing programs as “management and general” expense when it can legitimately be allocated to program services.

Form 990’s prominence as a tool for evaluating not-for-profit organizations is evident from the abundance of resources available that instruct readers on how to interpret the form. One useful guide is *How to Read the IRS Form 990 and Find Out What It Means*, by Peter Swords, former executive director of the Nonprofit Coordinating Committee of New York.<sup>2</sup>

The 22-page manual lists the “10 most important items” in the return and explains what can be learned from them. It covers everything from the organization’s tax status, expenses and sources of income to whether the organization engages in lobbying activities. It explains how net assets reported at the bottom of page one of Form 990 — and especially *changes* in net assets — may provide clues about an organization’s future prospects.

With a wealth of information available on how to read and interpret Form 990, it is more important than ever for not-for-profit organizations to be diligent in completing their returns.

## Fill in the Blanks

One of the most valuable lessons organizations can learn from Swords’ guide is the importance of completing all of Form 990 and not leaving any blanks. In the past, Form 990 was not always taken seriously, and incomplete returns were common. But today, readers are being educated to make inferences not just from what a return includes, but also from what it omits.

For example, Part III, Line 2 of Schedule A elicits information about “self-dealing” transactions between the organization and its directors or key employees such as selling property, lending money, or furnishing goods or services. If you answer “yes” to any of the questions in this section, you should attach a detailed statement explaining the transactions.

A “yes” answer does not necessarily signal corruption. In many cases, these transactions benefit the organization. A director may sell real estate to the organization at a below-market price, for example. But, as Swords explains, “If no explanation is provided or if the explanation appears evasive, a red flag may be raised in the reader’s mind . . . .”

When completing Form 990, be sure to fill in all the blanks, answer all the questions and provide explanations when appropriate. If you do not, readers may infer either that you have something to hide or that you were not willing to make the effort to provide accurate information. Either conclusion reflects poorly on your organization.

## Make the Most of Form 990

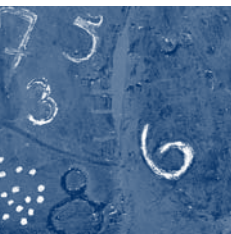
What started out as a simple information return designed to confirm tax-exempt status has evolved into one of the most highly visible and readily accessible sources of information about not-for-profit organizations. With a little effort and a new way of looking at Form 990, you can turn an administrative headache into a powerful marketing, fund-raising and public relations vehicle.

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<sup>2</sup> The guide is available online at [www.npcny.org/Form\\_990/990.htm](http://www.npcny.org/Form_990/990.htm).

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A dedicated staff of professionals whose sole purpose is providing business solutions to not-for-profit organizations across the United States.

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