

Financial Data

IRS agents use the financial data in the long form 501(c)(3) application for many purposes:

1. To flesh out the narrative description of the organization's activities.
2. To identify unrelated business income, lobbying, excess benefits, and other taxable activities/events.
3. To uncover inurement, political expenditures and other disqualifying activities/events.
4. To determine the organization's correct annual filing requirement. (990 family of forms)
5. To determine whether the organization has paid the correct User Fee.
6. If the organization is filing more than 27 months after the end of the month the organization was formed, to determine if the low gross receipts exception to the filing deadline applies.
7. To determine if the group is publicly supported.
8. To determine which reinstatement procedures an automatically revoked organization must use.

Form 1023-EZ, of course, does not ask you to provide financial data, but EZ filers still need financial data in order to answer a number of questions on Form 1023-EZ.

Although the IRS provides formats for long-form applicants to use on pages 9 and 10 of Form 1023, they will accept financial data in a different format, as long as it provides enough detail. If your group has budget forms or treasurer's reports that it already uses, or if you use a financial software program that provides suitable statements, feel free to use those, as long as the information provided includes income and expenses, is classified (broken down by type of income and type of expense, rather than lumped together) and shows total amounts. If you file the long-form 1023 and use your own income statements, insert them between pages 9 and 10 of Form 1023, where they will not be overlooked.

Simple worksheets you can use for all three types of financial statements appear below. Make sure to label all financial statements clearly.

Statement of Revenue and Expenditures

The Statement of Revenues and Expenditures, also known as an income statement, or P & L (profit & loss), summarizes your organization's financial activity over a given period of time, usually a year.

Make a genuine effort to capture ALL your organization's financial information. In my experience, even very small or inactive non-profits have at least some financial activity. Your organization's books and records should reflect donation income when folks pay expenses on the non-profit's behalf (annual filing fees, long distance phone, etc.) and when mundane items (used office furniture, coffee supplies, stamps, etc.) are donated. (Donated services or facilities - except those

Statement of Revenue and Expenditures, cont.

furnished by a governmental unit without charge - are ignored for IRS reporting purposes, since these kinds of donations cannot be deducted by donors on their tax returns.) There is no "minimum amount" that makes filing unnecessary, and failure to file three consecutive annual IRS returns will result in automatic revocation of an organization's exempt status, whether or not the IRS has already recognized such exempt status.

Balance Sheet

While the income statement summarizes financial activity over a period of time, the balance sheet takes a snapshot of the organization's finances on a particular given date. You list everything that the organization owns and owes on that specific date.

The IRS prefers that you use the last day of a month for your balance sheet. The date you use should be recent. When using the long-form 1023, it is best to make your balance sheet correspond to the ending date you have used for current year revenue and expenses, if possible. Make sure to label all financial statements clearly. Do not provide projected balance sheets.

Projected Budget

The Statement of Revenues and Expenditures and Balance Sheet described above should reflect your organization's actual financial activity to date. In many instances, the IRS also wants a budget or financial projection - your best estimate of what your organization's income and outlay are likely to be in coming years.

Many organizations feel their circumstances make it too difficult to predict what the financial future holds. Needless to say, the IRS will require a budget anyway. The most important thing is to make a good faith effort to predict your organization's revenue and expenses. The IRS will not penalize you for guessing incorrectly. There are several ways you can approach budgeting:

Some organizations find it works best to start with the objectives the group wants to accomplish, estimating goal by goal what the planned activities will cost, and then creating a strategy to come up with the necessary income.

For other organizations, it makes more sense to start with projected income when budgeting. For instance, a membership group can estimate the number of people who might join, as well as the amount of dues folks might be willing to pay. Once you figure out how much the organization might be able to raise, decide what your priorities will be in spending it.

When an organization has operated for any period of time, another approach to the budget is available. Choose a month (or quarter) that is representative of how the organization is likely to operate in the future. Take that month, and multiply by twelve (four if you are using data from a

quarter). Depending on your circumstances, you might want to adjust your figures up or down to allow for growth or shifting priorities for future years.

Projected Budget, cont.

Another approach is based on operating units. Begin the budgeting process by having each committee or program unit draw up its own budget. Combine the various program areas and set priorities to arrive at an organization-wide budget.

When drawing up your budget, it may be helpful to look at financial information reported to the IRS by similar non-profit organizations. The annual IRS return filed by tax exempt organizations is Form 990. Scanned copies of many 990s are posted on the Internet, at www.guidestar.org. (As of March, 2016, you had to register, but not pay a fee, to view these.) If you do not know the name of an existing organization similar to your own, try a "keyword" search.) You may also find it helpful to review the financial information submitted with actual recent 501(c)(3) exemption applications posted on the Internet. A list of these appears in the Handbook topic 501(c)(3) Applications on the Internet.

For long-form 1023 applicants, the fee the IRS will charge for processing your 501(c)(3) application is based on the financial data/projected budget. If actual or projected income has been, or will be, more than \$10,000 per year, the IRS will charge a one-time User Fee of \$850, instead of \$400. The IRS does not currently have any follow-up procedures to see if your predictions are accurate, but your projections must be consistent with your description of your planned activities. See the discussion of Part XI of Form 1023 for more on the IRS User Fee.

Use of Form 1023-EZ, of course, requires gross receipts less than \$50,000. The fact that you have, in good faith, filed Form 1023-EZ does not mean, however, that your organization must turn away income that would exceed \$50,000 per year.

Final Advice on Financial Information

Don't put off thinking about your group's finances. You should start keeping financial records on the very first day you start taking any steps toward forming your non-profit organization. For a small non-profit, relatively inexpensive personal financial software may be all you need. Refer to a current copy of IRS Form 990 (the annual form tax exempt organizations file with the IRS) for a list of the account names you will need. Make sure you keep accurate lists of donors/amounts.

An accounting system is only as good as the information you put into it. Establish a regular schedule for updating information - preferably every day. If you wait until the end of a week or month, you may have quite a pile of information to enter, and there is nothing like a big To Do pile to trigger the procrastination reflex.

Appendix F1 - Statement of Revenue and Expenditures

Name of Organization _____

EIN of Organization _____

Statement of Revenue and Expenditures

Period Covered: from _____ to _____

Support and Revenue

Contribution Income	_____
Grants	_____
Dues	_____
Fees for Services	_____
Fundraisers	_____
Interest	_____
Sales	_____
Other _____	_____
Other _____	_____

Total _____

Expenses

Accounting/Bookkeeping	_____
Assistance to Individuals	_____
Donations Made to Other Organizations	_____
Fundraising Expenses	_____
Insurance	_____
Legal Fees	_____
Postage	_____
Printing	_____
Rent	_____
Salaries	_____
Supplies	_____
Tax & License	_____
Telephone	_____
Travel	_____
Training	_____
Other _____	_____
Other _____	_____

Total _____

Net Revenue Less Expenses _____

Appendix F2 - Balance Sheet

Name of Organization _____

EIN of Organization _____

Balance Sheet

Balances as of: _____

Assets

Cash & Checking _____

Savings _____

Inventories _____

Investments _____

Equipment _____

Land & Buildings _____

Other _____

Other _____

Total _____

Liabilities

Accounts Payable _____

Loans from Officers & Directors _____

Mortgage _____

Other _____

Other _____

Total _____

Net Assets (assets minus liabilities) _____

Appendix F3 - Projected Budget

Name of Organization _____

EIN of Organization _____

		Projected Budget	
		First year	Second Year
<i>enter dates covered></i>		_____	_____
Support and Revenue			
Contribution Income		_____	_____
Grants		_____	_____
Dues		_____	_____
Fees for Services		_____	_____
Fundraisers		_____	_____
Interest		_____	_____
Sales		_____	_____
Other _____		_____	_____
Other _____		_____	_____
	Total	_____	_____
Expenses			
Accounting/Bookkeeping		_____	_____
Assistance to Individuals		_____	_____
Donations Made to Other Organizations		_____	_____
Fundraising Expenses		_____	_____
Insurance		_____	_____
Legal Fees		_____	_____
Postage		_____	_____
Printing		_____	_____
Rent		_____	_____
Salaries		_____	_____
Supplies		_____	_____
Tax & License		_____	_____
Telephone		_____	_____
Travel		_____	_____
Training		_____	_____
Other _____		_____	_____
Other _____		_____	_____
	Total	_____	_____
Net Revenue Over Expenses		_____	_____