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**MONTGOMERY, MCCRACKEN, WALKER & RHOADS, LLP**  
**LA SALLE UNIVERSITY'S NONPROFIT CENTER**  
**COMMONWEALTH BANK**  
**GOLDENBERG ROSENTHAL, LLP**

This guide has been designed to present business and tax information of a generalized nature to nonprofit organizations. The information contained herein is a summary and should not be deemed to be professional advice. It should not be acted upon without prior consultation with appropriate professional advisors.

**THE GUIDE FOR**  
**NONPROFIT ORGANIZATIONS**

**Legal, Organizational, Financial and Accounting**  
**Information for Nonprofit Organizations**

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## ABOUT THIS GUIDE

Nonprofit organizations provide invaluable services that make a difference in our local community. Although nonprofits are generally thought to benefit the needy, senior citizens, disabled persons, or other specialized segments of the general population, the truth is that all of us can reap the benefits of the various environmental, healthcare, educational, and cultural programs nonprofits provide. In order to maintain their nonprofit status and continue to help others, these organizations must constantly face unique financial, legal, and tax concerns.

The Guide for Nonprofit Organizations outlines the basic legal, organizational, financial and accounting issues regarding the start up and ongoing operation of the nonprofit organization. Such critical issues as obtaining federal recognition of nonprofit status, charitable solicitation registration, and basic financial statements, including statement of activities, statement of financial position, and balance sheets, are addressed. A complete overview of nonprofit board responsibilities and financing requirements are discussed. In addition, taxation and payroll requirements for nonprofit organizations with or without employees are included, as well as an information directory of the various agencies involved in nonprofit organizations.

The Guide is the product of the joint efforts of the law offices of Montgomery, McCracken, Walker & Rhoads, LLP; the Nonprofit Center of La Salle University; Commonwealth Bank; and Goldenberg Rosenthal, LLP, a regional business advisory and certified public accounting firm.

This guide has been designed to present business and tax information of a generalized nature to nonprofit organizations. The information contained herein is a summary and should not be deemed to be professional advice. It should not be acted upon without prior consultation with appropriate professional advisors.

## MONTGOMERY, MCCRACKEN, WALKER & RHOADS, LLP

Montgomery, McCracken is a major full service law firm that has made a unique commitment to the representation of nonprofit organizations from offices in Philadelphia, Cherry Hill, NJ, and Wilmington, DE.

The firm has created a Health, Education and Nonprofit Law Group of lawyers who spend their full professional time representing the interests of nonprofit organizations and other healthcare providers. They work regularly with members of every other department of the firm in an Exempt Organizations Group to provide comprehensive, creative and efficient assistance to nonprofit groups of all types.

Montgomery, McCracken lawyers serve nonprofits with a detailed program to review compliance with relevant laws and regulations. They have also developed a Gift-Aide service to advise on charitable giving and a Quick Questions service to provide quick response to general legal questions of smaller nonprofits.

Montgomery, McCracken lawyers keep abreast of developments in many ways. The Exempt Organizations Group meets regularly with governmental officials, foundation executives and others whose work is relevant to nonprofits. Each member serves on a nonprofit board of directors. They speak frequently on legal issues of importance to nonprofits and contribute regularly to Nonprofit Issues, a monthly newsletter on nonprofit law published by one of the attorneys in the Group.

The lawyers recognize the special issues facing nonprofits. They understand that nonprofits have many different ways of measuring “the bottom line,” and are committed to helping these organizations fulfill their missions.

**For more information, call or e-mail Donald W. Kramer (215-772-7277, dkramer@mmwr.com) or Virginia P. Sikes (215-772-7275, vsikes@mmwr.com).**

## LA SALLE UNIVERSITY NONPROFIT CENTER

La Salle University’s Nonprofit Center (the Center), a program of the University’s School of Business Administration, works to strengthen the management and governance infrastructures of nonprofits throughout the Delaware Valley. Since its inception in 1981, the Center has helped nonprofits enhance their own capacity to govern, manage and perform more effectively.

The Center provides a variety of services, including:

- ▲ customized consulting provides on-site consulting to organizations in a range of areas, including management and board development, strategic planning, marketing, financial management, fundraising, and impact evaluation;
- ▲ Board of Directors Institute offers an on-site educational session on the basic responsibilities of a nonprofit board and a mentoring and matching service between individuals interested in board service and organizations looking for new board members;
- ▲ educational programming provides over 120 workshops a year throughout the Delaware Valley on such topics as strategic planning, fundraising, program evaluation, human resources, and financial management; both Basic Certificate and Advanced Certificate courses of study are available;
- ▲ and information and referrals handles over 17,000 phone and e-mail requests for information a year, and publishes OpNOCs, a monthly employment newsletter for the area nonprofit sector.

The Center works primarily with small to mid-sized nonprofits (with budgets ranging from \$75,000 to \$100 million) from all across the nonprofit sector — arts, culture, social and human service, environmental, health care, and social justice organizations.

**For additional information, please contact Laura Otten, Ph.D. at (215) 951-1701 or NMDC@lasalle.edu.**

## COMMONWEALTH BANK

Commonwealth Bank is a Delaware Valley, Pennsylvania based institution with a foundation of 60 retail branch offices serving Berks, Bucks, Chester, Delaware, Montgomery and Philadelphia counties. Each branch is designed to offer a significant array of financial products and services and provide a personalized approach to customer service.

Commonwealth Bank emphasizes timely, localized decision making to meet the needs of small and middle market nonprofit organizations.

Specifically, Commonwealth Bank is a significant lender to nonprofit entities in various fields including the following:

- ▲ Mental Health
- ▲ Mental Retardation
- ▲ Private Schools
- ▲ Religious Organizations

Commonwealth Bank can provide nonprofit organizations with:

- ▲ Lines of credit to support accounts receivables
- ▲ Term loans<sup>1</sup> for equipment and other fixed asset purchases
- ▲ Mortgage loans<sup>1</sup> for real estate acquisitions and/or expansion
- ▲ Construction financing<sup>1</sup>
- ▲ State of the art cash management products
- ▲ Investing of excess cash

<sup>1</sup>These types of financing may be eligible for “tax free” rate financing resulting in substantial interest cost savings to your organization. This method of financing is discussed more fully under the “financing for nonprofits” section in this booklet.

**For more information on these products, please contact Edward T. Fitzgerald, Regional Vice President, at (610) 313-1594.**

## GOLDENBERG ROSENTHAL, LLP

For over 82 years, Goldenberg Rosenthal’s Not-for-Profit Services Team (GR) has brought the power of ideas to nonprofit organizations. GR’s most valuable resource for clients is our ability to offer creative solutions to meet today’s challenges.

“Thorough proactive information, they are professional in their approach to people at the company, and at the same time, very personable and courteous. The human relations piece is very important...they emphasize it with their staff.” – Nonprofit Client Comment, Annual GR Client Survey

Combining years of successful experience with technical knowledge, GR is able to provide the highest quality of services:

### Historical Financial Reporting

- Annual audits
- Compliance and programmatic audits
- Reviews and compilations

### Financial and Administration Management

- Operating and capital budgeting
- Cash flow projections
- Employee benefit studies
- Operational reviews
- Accounting procedures manuals
- Internal control evaluations
- Training personnel
- Assist with HR issues / hiring

### Tax Planning and Compliance

- Annual information returns
- Unrelated business income tax planning

### Automated Systems

- Design and installation
- Hardware and software selection
- Computer training

**For more information on GR’s Nonprofit Division, please contact David A. Gruber, CPA at (215) 881-8800, at (856) 354-6054 in New Jersey, or via e-mail: [dgruber@grgrp.com](mailto:dgruber@grgrp.com).**

## Introduction to Nonprofit Organizations

Nonprofit organizations come in many forms, from the purely volunteer soup kitchen serving the homeless to the National Football League. An understanding of the differences can be helpful to understanding the world of nonprofit organizations.

**Nonprofit.** “Nonprofit” is a concept of state law, which means that an organization may not pay dividends or otherwise pass any surplus revenue, or “profits,” from the enterprise on to shareholders, members, or other individuals. Although a nonprofit may pay reasonable compensation for services actually rendered to it, in general, any surplus generated by the organization must stay within the organization and be used for its stated purposes. A nonprofit corporation is not “owned” by anyone. It may be controlled by individuals or other entities, but those who control the nonprofit do not have an ownership interest in the organization.

**Tax Exempt.** Most, but not all, nonprofit organizations are exempt from paying federal income tax on their earnings. Section 501(c) of the Internal Revenue Code (the “Tax Code”) now spells out 27 separate categories of exempt organizations. These categories include Section 501(c)(2) title holding companies, Section 501(c)(4) civic associations, Section 501(c)(5) agricultural or labor organizations, Section 501(c)(6) business leagues, professional and trade associations (including the National Football League), and Section 501(c)(7) social clubs. The largest category, and the one most people usually think of when they hear the terms “nonprofit” or “tax exempt,” is Section 501(c)(3) which exempts “charitable” organizations (including the volunteer soup kitchen).

**Charities.** Under the Tax Code definition, a Section 501(c)(3) charitable organization is one which is “organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals.” In addition, no part of the net earnings may inure to the benefit of any private shareholder or individual, no substantial part of the activities may consist of carrying on propaganda, or otherwise attempting, to influence legislation (“lobbying”), and the organization may not participate in any political campaign for or against any candidate for public office (“electioneering”).

## Introduction to Nonprofit Organizations

The critical distinguishing feature of charities, as opposed to almost all other types of federally exempt organizations, is that individuals and corporations may make charitable contributions to charitable organizations and claim a charitable contribution deduction on their own federal income tax returns.

**Public charities and private foundations.** Section 501(c)(3) charities are further subdivided under Section 509(a) of the Tax Code between those that are considered publicly supported, such as a church, hospital, school, United Way or a nursing home, and those that are considered private foundations because essentially all of their income has come from a single individual, family, or corporation and income on their investments. Private foundations are subject to more stringent regulations.

**State tax exemption.** State tax exemption is an entirely separate issue from the federal exemption that usually defines nonprofits in the public mind. In New Jersey, essentially any nonprofit corporation not conducted for personal profit is exempt from state income tax and corporate franchise taxes. In Pennsylvania, nonprofit corporations that are exempt from federal income tax under any section of the Tax Code are also exempt from state income tax and capital stock tax.

In addition, there are two other state taxes that can also have a significant effect on the budget of a nonprofit organization, the sales tax and real estate tax. Charitable organizations may be exempt from paying sales tax on the goods and service they purchase and real estate tax on their real estate holdings if they meet the state law definition of charity. New Jersey generally exempts organizations of the kind traditionally deemed to be charitable under Section 501(c)(3). Pennsylvania does not consider exemption under Section 501(c)(3) relevant to its definition. A discussion of the more stringent Pennsylvania criteria is set out on the next page.

## Definition of a Pennsylvania Purely Public Charity

The Pennsylvania Constitution permits the Legislature to exempt “institutions of purely public charity” from taxes by enacting appropriate legislation. Over the years, the General Assembly established charitable exemptions from paying state sales and local real estate taxes. In 1985, in *Hospital Utilization Project v. Commonwealth*, 507 Pa. 1, 487 A.2d 1306, the Pennsylvania Supreme Court set out five criteria for determining whether an organization meets the Constitutional requirements to be an institution of purely public charity eligible for charitable exemption.

In the 12 years following that decision, many municipalities challenged the exemption of hospitals, colleges and other charities in an effort to raise additional real estate tax revenues. The Commonwealth Court frequently denied exemption to nonprofits that had traditionally been exempt from tax. Nonprofits and other commentators felt the Commonwealth Court was increasingly narrowing the basis for exemption.

After years of lobbying by representatives of the nonprofit sector, the Legislature passed Act 55 of 1997, the “Institutions of Purely Public Charity Act.” It was an attempt to resolve some of the controversy and establishes a generally liberal definition of each of the five criteria for exemption.

After specifically exempting “state-related” colleges and universities, the Act attempts to define the five HUP criteria in Section 5.

**Charitable Purpose.** A charitable purpose includes relief of poverty, advancement or provision of education (including post-secondary education), advancement of religion, prevention and treatment of disease or injury (including mental retardation or disorders), governmental purposes, or the “accomplishment of a purpose which is recognized as important and beneficial to the public and which advances social, moral or physical objectives.”

**Private Profit Motive.** Revenue may exceed expenses, but the organization is considered operating free from private profit motive if it does not violate private increment standards of Section 501(c)(3) of the Internal Revenue Code, applies all revenues towards its charitable purpose or to funding other charities, does not base compensation “primarily upon the financial

## Definition of a Pennsylvania Purely Public Charity

performance of the institution,” and includes a dissolution provision in its articles of incorporation prohibiting distribution of surplus funds for private increment upon dissolution.

**Community Service.** The institution must donate or render gratuitously a substantial portion of its services. The statute creates a series of percentage tests, most of which were negotiated with hospitals, colleges and other organized charities to assure that the bulk of ordinary charities would comply. Charities are required to provide a certain level of “uncompensated services,” which is essentially defined as services for which the full cost is not paid by or on behalf of the recipient. Included in the calculation is the value of volunteer services computed on an hourly basis not to exceed the “state-wide average weekly wage” established for workers compensation, divided by 40. PILOT agreements may be included in the calculation of the value of community service under certain formulas. Charities may establish Public Service Foundations to channel their collective contributions to municipalities.

**Indefinite Class of Legitimate Subjects of Charity.** Legitimate subjects of charity are “those individuals who are unable to provide themselves with what the institution provides them.” A substantial and indefinite class exists where the benefits are received “primarily by members of the institution, membership cannot be predetermined in number and cannot be arbitrarily denied by a vote of the existing members.” It specifically recognizes that use of admissions criteria and enrollment limitations by educational institutions does not violate the section. Also specifically included are charitable fund-raising organizations. Specifically excluded are organizations not described in Section 501(c)(3) of the Tax Code and which are (c)(4) associations of employees, (c)(5) labor, agricultural or horticultural organizations, (c)(6) business leagues, (c)(7) social clubs, or (c)(8) fraternal benefit societies.

**Government Service.** The organization must relieve the government of some of its burden. It meets the criteria if it provides a service that the government would otherwise be obligated to provide, which has historically been assumed by government, is paid for by government if less than the cost of providing the services, or which directly or indirectly reduces dependence on government programs, or advances or promotes religion and is owned and operated as a religious ministry and satisfies the other criteria of the section. A special

## Definition of a Pennsylvania Purely Public Charity

provision is included to exempt certain “parent” organizations in multi-entity systems such as a health system. Another separate provision makes clear that a charity may lobby to the extent permitted by Sections 501(c)(3) and 501(h) of the Tax Code.

A charity exempt from sales tax is presumptively exempt from real estate tax, except for charities with more than \$10 million in program service revenues. The larger charities are presumed exempt only if they have PILOT agreements with the taxing municipality. The \$10 million figure escalates by 1% a year starting July 1, 1999.

Whether the definitions in the Act will provide the controlling basis for determining eligibility for exemption was not clear when this book was published. The Pa. Supreme Court agreed (in September 2001) to consider an appeal in the case of *Community Options v. Board of Property Assessment*, 764 A. 2d 645 (2000). In that case, a panel of the Commonwealth Court ruled that Act 55 provided an additional set of criteria for exemption, and that the Courts alone had the prerogative to determine the Constitutional standards. The Commonwealth Court denied an exemption to an organization it said did not qualify under the Constitutional standard even though the trial court had found it met the statutory standards.

Even if the Supreme Court says the definitional criteria are not controlling, Act 55 creates additional requirements for charities.

**Unfair Competition.** Section 8 provides a lengthy arbitration program for small businesses to challenge “unfair competition.” Charities agreed to the provision as a necessary compromise with small business in return for the other favorable provisions of the bill.

A “small business” is an entity with less than 101 employees, which pays state taxes. Charities may not fund or subsidize a “commercial business” activity unrelated to the purpose for which the charity is exempt, except where intended only for the use of its employees, staff, alumni, faculty, and others related to the institution, or where incidental or periodic rather than permanent and ongoing. A “commercial business” is the sale of products or services that are principally the same as those offered by an existing small business in the

## Definition of a Pennsylvania Purely Public Charity

same community. The section does not prohibit subsidizing other charities, investment in publicly traded stock or other investments, use of facilities to host groups for educational purposes, or activities formally requested by the state or a local government. There is also a grandfather clause to protect existing activities so long as they are not “substantially” expanded.

The arbitrator must be appointed by the Department of State and has about a year to render a decision. There is no requirement for a hearing. The arbiter may enjoin the activity, but may not impose damage penalties.

**Financial Accountability.** Charities exempt from solicitation registration, except churches and the “small potatoes” exceptions, must file their Form 990 federal tax returns with the Bureau of Charitable Organizations. If they do not file the federal forms, they must file financial statements. Filing costs \$15.

## Legal Issues in Establishing Nonprofit Organizations (A Primer on 501(c)(3) Status)

### 1. CREATION OF A NONPROFIT ORGANIZATION

Although a nonprofit organization can take other forms (such as a trust), most nonprofit organizations are corporations. The primary reasons for this are that the laws governing corporations give more complete guidance than the laws governing other forms and provide greater protections against personal liability of directors.

Corporations are formed under state law. To form a nonprofit corporation, the person or persons forming it must file an organizing document with the state under the laws of which the corporation is being formed. In Pennsylvania, the document is called the articles of incorporation and it is filed with the Pennsylvania Department of State. There is a \$100 fee for filing the articles. In New Jersey, one files a certificate of incorporation with the Department of State for a fee of \$50.

The organizing document states the purpose of the corporation and gives certain other basic information such as the corporation's legal address and whether it will issue stock.

After the organizing document is filed with the state, the person or persons who formed the corporation will normally appoint the members of the board of directors. Either the creators of the corporation or the directors will adopt the corporation's by-laws. The by-laws are the rules that govern the corporation, stating, for example, what officers it will have and how and when they will be elected. The rules set forth in the by-laws must be consistent with the statutes governing nonprofit corporations in the state under whose law the corporation was created.

### 2. OBTAINING FEDERAL RECOGNITION OF NONPROFIT STATUS

The Internal Revenue Code exempts from federal income tax more than 27 different types of nonprofit organizations. Most types of nonprofits do not have to receive a recognition of exemption letter from the IRS in order to be exempt from tax.

## Legal Issues in Establishing Nonprofit Organizations (A Primer on 501(c)(3) Status)

With some minor exceptions, the only type of nonprofit that can receive deductible contributions (i.e., donors get a federal charitable income tax deduction for their contributions) is a charitable organization recognized as exempt under Section 501(c)(3) of the Code. To qualify for 501(c)(3) status, the charitable organization, if it normally has more than \$5,000 in gross receipts annually, must receive a recognition letter from the IRS.

This requirement does not apply to churches, conventions of churches and church auxiliaries. An organization files Form 1023 to request recognition of exemption as a 501(c)(3) organization.

Exempt organizations which are not charitable in nature and therefore cannot qualify as 501(c)(3) organizations eligible to receive deductible contributions—such as 501(c)(6) business leagues or 501(c)(7) social clubs—may nevertheless want a letter recognizing their exempt status. Many of these organizations would file Form 1024 to request recognition of exemption.

**Requirements for 501(c)(3) Status.** In order to obtain recognition as a 501(c)(3) charity, an organization must be organized and operated “exclusively” for charitable purposes.

In order for the organization to be organized for charitable purposes, its organizational document (articles or certificate of incorporation) must state that it will be engaged exclusively in activities which qualify as charitable under the federal law, and must not permit more than an insubstantial amount of its activities to be non-charitable activities. The organizing document must also provide that on dissolution of the organization, its net remaining assets will be distributed for charitable purposes.

An organization will not be operated for charitable purposes if its earnings inure to the benefit of private individuals. (This rule does not prevent 501(c)(3) organizations from paying reasonable compensation for services, including compensation to directors.) The organization will not be operated for charitable purposes if it engages in election campaigning or if more than an insubstantial amount of its activities is supporting or opposing legislation. Many 501(c)(3) organizations put language in their organizing documents

## Legal Issues in Establishing Nonprofit Organizations (A Primer on 501(c)(3) Status)

prohibiting private inurement and campaigning, and stating that lobbying will not be more than an insubstantial part of their activities.

**Public Charity versus Private Foundation Status.** A 501(c)(3) organization is either a public charity or a private foundation, depending on whether it has or is deemed to have broad public support or is supported by only a small group, such as a group of related people. The IRS recognition letter will state whether the organization is a public charity or a private foundation.

Private foundations are subject to more restrictive rules than are public charities, because Congress is concerned about the potential for abuse where a charity is supported by and therefore controlled by a small group. These restrictive rules include, among others, a tax on net investment income, a requirement that minimum distributions for charitable purposes must be made each year, and restrictions on transactions between the private foundation and its board members, officers and other related persons. One of the most significant limitations on private foundations is the virtual prohibition on lobbying activity. The Tax Code makes it a “taxable expenditure” for a private foundation to attempt to influence legislation at any level of government, except in very narrow situations dealing with the foundation’s powers, duties or exempt status or responding to a request for technical assistance from a governmental body.

To escape these restrictions and also because institutions that make grants to charitable organizations prefer to give to public charities, 501(c)(3) organizations much prefer to be classified as public charities rather than private foundations. To be classified as a public charity, a 501(c)(3) must pass a public support test unless it is deemed to be publicly supported under federal tax rules.

Certain organizations, such as certain medical and educational institutions and churches, are deemed to be broadly publicly supported and therefore do not have to pass a public support test to be public charities. Organizations organized to test for public safety are also deemed publicly supported. Other 501(c)(3) organizations will be classified as private foundations unless they pass a public support test.

## Legal Issues in Establishing Nonprofit Organizations (A Primer on 501(c)(3) Status)

There are two public support tests based on the organization’s sources of income—both are applied to four-year test periods. If an organization passes either test, it qualifies as a public charity for the two years following the test period. These tests take their names from the Tax Code sections in which they are spelled out.

**a. 509(a)(1) Test.** The first test—called the 509(a)(1) test—requires the organization to receive 1/3 of its total support from qualified public support—gifts, grants and contributions from the general public, the government or other publicly supported nonprofit organizations. The way that Congress assures that the organization has broad public support is that, of gifts from any one private individual, family, corporation or private foundation, only an amount equal to 2% of the organization’s total support is treated as public support. So, if an organization’s total support during the four-year period was \$500,000, and an individual contributed \$50,000 of that support, only \$10,000 of the contribution (2% x \$500,000) would count as public support. Under certain special circumstances, an organization can pass the 509(a)(1) test with only 10% public support. The 509(a)(1) test does not count fee for service income from activities related to the organization’s exempt purpose in determining the percentage of public support. Such income is not included in either the numerator or denominator of the fraction.

**b. 509(a)(2) Test.** Under the second test—the 509(a)(2) test—the organization must also receive 1/3 of its total support from qualified public support. Since this test does include fees for related services in its calculation, this test is usually passed by 501(c)(3) organizations who get fees for performing their exempt activities, such as nursing homes. Under this test, none of the contributions from the organization’s directors or officers or substantial contributors counts as public support. Also, the portion of any fee for exempt services from any one individual or entity under any one contract that counts as public support each year is limited to the greater of 1% of total annual support or \$5,000. There is a second requirement under the 509(a)(2) test—not more than 1/3 of the organization’s total support can be from the total of investment income and net unrelated business income.

## Legal Issues in Establishing Nonprofit Organizations (A Primer on 501(c)(3) Status)

**c. Supporting Corporation Status.** An organization which qualifies as a supporting corporation to a 501(c)(3) organization which is a public charity under Section 509(a)(1) or (a)(2) or to a governmental unit is automatically deemed a public charity without having to pass a public support test on the basis of its sources of income.

### 3. CHARITABLE SOLICITATION REGISTRATION

Both Pennsylvania and New Jersey require most organizations that solicit or receive charitable contributions in the state to register with the appropriate state office (See “All Forms for Nonprofits With or Without Employees to be filed”).

Pennsylvania enacted a revised and more stringent statute effective in the spring of 1991, with new disclosure requirements and increased administrative and judicial penalties. The Bureau of Charitable Organizations has been aggressively enforcing many of the new provisions.

## An Overview of Nonprofit Board Responsibilities

Every nonprofit corporation needs a board of directors for two main reasons:

- ▲ to register as a tax-exempt corporation, and
- ▲ to manage and govern itself effectively.

No matter the size of a board or its organization, every board member in Pennsylvania is required to discharge his/her duties “in good faith, in a manner in which he or she reasonably believes to be in the best interests of the corporation, and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances” (Pennsylvania Business Corporation Law). And while not law, every board member is expected to uphold three standards:

- ▲ duty of care: the duty to pay attention and act reasonably;
- ▲ duty of loyalty: the duty to put the interests of the nonprofit organization ahead of one’s own personal interests and to avoid self-dealing; and
- ▲ duty of obedience: the duty to obey and support the mission of the organization.

There are six basic areas of governance for which a nonprofit board, and, therefore, each individual board member, is ultimately responsible.

- 1) Strategic Planning: determining the nonprofit’s mission and purpose; approving overarching goals and objectives of all programs; monitoring achievements and outcomes against those established goals
- 2) Financial Accountability: ensuring that the nonprofit is properly managed, that financial control systems are in place, and that proper judgment is used in all business and financial transactions
- 3) Fund Development: identifying and approving fund development goals and plans; participating in fundraising activities, especially in the cultivation and solicitation of individual donors

## An Overview of Nonprofit Board Responsibilities

- 4) Public Relations: enhancing the public image of the organization
- 5) Appraising the Executive Director: selecting, supporting and conducting an annual performance review of the Executive Director
- 6) Maintaining the Board: selecting, recruiting and nurturing new board members; developing and reviewing the performance of board members; assessing its meetings and its own performance as a board

In order to accomplish these duties, board members need to understand that there are four distinct “roles” they can play in their nonprofit organization:

- ▲ board members govern the nonprofit by making policies in partnership with staff;
- ▲ board members actively fundraise on behalf of the nonprofit;
- ▲ board members provide free advice when asked by management on business and programmatic areas within their expertise; and
- ▲ board members volunteer in the service delivery of the organization.

What role a board member plays at any given time may vary depending upon the stage of development of the nonprofit organization. For example, an organization in its early stage of development — or to use the terminology of Karl Mathiason of the Management Assistance Group in Washington, D.C., the “Phase of Creativity” — may require that board members spend much of their time playing roles two through four above, and less on the first role. An organization that has a more established staff and infrastructure will require that board members concentrate on the first two roles above. Thus, while all roles are important, emphasis changes with the developmental life cycle of the nonprofit organization.

One of the more novel contributions to board theory of the last decade has been from John Carver, a board consultant from Indiana. In watching what most boards actually do, Carver observed that many board members feel their major job is watching over, scrutinizing and approving organizational behavior. Staying on top of things is, of course, important in managing or

## An Overview of Nonprofit Board Responsibilities

governing anything. But, Carver contends, a big mistake is made if we believe that “watching over” and “approving” are the central responsibilities of a governing board. They are not. The central function of a governing board is to lead, according to Carver. “Watching over” and “approving” are not leading. They are, however, crucial activities for ensuring that board committees, staff and volunteers are, in fact, following the dictates and directions of the leading body.

Thus, the Board must first identify and clarify those dictates and directions. This is done through the setting of goals and objectives. As Carver says, “Board governance is about creating the future, about carving what can be out of what is, and about creating community by linking leadership to leadership.” Once a governing board has done its job of leading, it is then ready to monitor, as it now has the objectives by which to judge. The clearer a board is about what it wants, the easier it is to tell if that goal has been achieved. Following this line of reasoning, then, strategically planned outcome goals are the most important part of a governing board’s work. Outcome goals identify the dream—the desired and ultimate impact the organization wishes to achieve. Outcome goals are not the services, programs or curricula, but rather the change or good these activities are designed to achieve. Outcome goals are usually found in the mission statement and overarching goals of a strategic plan.

When the board meets as a whole body to lead and govern, the focus of board governance meetings needs to be devoted to the long term. Meetings need to be primarily concerned with creating the future, rather than passively reviewing the past. The focus is external (i.e., what has changed out there? what is our positioning in the community and how do we compare to other similar organizations? how will that trend affect our ability to provide services?), and not internal. To facilitate this process, some organizations have turned to using a strategic agenda, as opposed to the traditional agenda. Whereas a traditional agenda is simply a series of seemingly disconnected reports from individuals and committees, a strategic agenda is organized topically around the strategic goals a board has identified. In this model, committees and individuals report piecemeal on their work as it relates to a particular strategic topic on the agenda.

## An Overview of Nonprofit Board Responsibilities

Board governance results in policy making; however, it is not always clear to board members how to make policy or what a policy actually is. Policies are ways for nonprofits to set limits and to develop systems for how things should be done within the organization. Policies serve as management guidelines so that when implemented, they accomplish the day-to-day running of the organization without constant board approval—or interference. By Webster’s dictionary definition, policies are “a definite course or method of action selected from among alternatives and in light of given conditions to guide and determine present and future decisions.” There are several levels of policies:

**major** policies are always a board governance responsibility; they deal with questions such as: “what is our mission?” “to what ends are we working?” “what is going on out there and how will it impact our organization?” and “how does something align with our values and key operating principles?”

**secondary** policies and **functional** policies are a shared governance and management responsibility; they deal with areas including: “who do we serve and with what range of services?” “how do they access our services?” and “how much money will it cost and how will we get it?”

**minor** policies, **standard operating procedures** and **rules** are a management responsibility, including areas such as “how do we do this on a daily basis? “what’s the process for that?” and “what rules need to be instituted?”

To be effective, policies should be developed with staff, approved by the board, distributed to everyone who is affected by them, consistently enforced, regularly reviewed and updated, and consistent with by-laws, mission, and articles of incorporation.

Today, many boards are doing a good job in assuming their responsibilities to plan strategically, appraise the executive director, oversee financial accountability, and even help raise funds (generally, the least liked responsibility, and, therefore, often the least assumed!). There is, however, one area of responsibility where boards appear to be falling short: boards

## An Overview of Nonprofit Board Responsibilities

need to be better at both monitoring their own activities and accomplishments, and developing board members and leadership succession plans. Recent research suggests that boards that engage in periodic self-assessment and reflection are the leaders of stronger, healthier organizations. Thus, boards should be sure to do the following:

### Set boundaries through job descriptions for:

- ▲ the board as a whole;
- ▲ board committees and committee chairs;
- ▲ individual board members; and
- ▲ the executive director. (The executive director is responsible for other staff job descriptions, but may ask the board for input.)

**Make sure the board has enough people doing the right things.** This means that the Board Development Committee must develop and maintain profiles of what the board should ideally “look like” compared to what it is, and then it must identify the discrepancies. This requires that the Board Development Committee looks closely at the organization’s purpose and strategic goals, and then reflects on the qualities, skills, experiences, interests, relationships, and connections that board members need to bring to the board room. Asking each board member to write and sign a letter of agreement each year that identifies just what it is s/he can commit to that year is one way of introducing a level of accountability. This letter will also help to identify gaps on the board that will need to be filled.

**Make sure the content and process of its board meetings are appropriate and meet the needs of the board.** From time to time, the board needs to take a few moments to answer the following questions, and then decide how to make the necessary modifications:

- ▲ Are our board and committee meetings effective? Should we change our agenda style to a strategic agenda, consent agenda or reverse agenda (an agenda that moves the routine, reporting pieces of the agenda to the end and brings to the front the work that requires creative and high energy levels, such as new business)?
- ▲ Are we talking about the right things?
- ▲ Are we making major policy or meddling and micro-managing?

## An Overview of Nonprofit Board Responsibilities

- ▲ Do we have too much/too little/enough information to make informed decisions?
- ▲ Is there too much/adequate discussion and participation?
- ▲ Is committee work done in committee, and recommendations and outcomes brought to the board for approval, or is the board redoing the work of the committee?
- ▲ Are overarching issues discussed by the full board?

In sum, a board can and must help the nonprofit if the nonprofit is to thrive. Board members must be committed to the mission; they must participate by asking questions and analyzing answers; and they must participate in everything from decision making to fundraising to support the nonprofit. As Karl Mathiason says, "A board is not a simple mechanism to be kept running smoothly by an occasional oiling. On the contrary, a board is a complex organism, requiring care and nurture to make it effective." In the best nonprofits, a healthy governing board provides a strong competitive advantage that is well worth the effort needed for its creation and maintenance.

## Financing for Nonprofit Organizations

### WHAT NONPROFIT ORGANIZATIONS OFFER COMMERCIAL BANKS

Nonprofit organizations offer commercial banks the opportunity to grow loans and deposits in a very competitive market, while fulfilling their community responsibility under the provisions of the Community Reinvestment Act (CRA). Doing business with nonprofits also offers the bank a chance to enhance its image in the community through exposure to the organization's board of directors; who are often people of significant stature in the community. These relationships have proven themselves to be profitable endeavors for banks due to the deposit account generation and financing opportunities they often provide.

### QUESTIONS YOU SHOULD ASK BEFORE CHOOSING A BANK TO PROVIDE SERVICES FOR YOUR ORGANIZATION:

- ▲ Does the Bank make a market in my specific industry?
- ▲ What geographic area does it serve?
- ▲ How does my organization compare, in terms of revenue size and loan needs, to similar existing clients of the Bank?
- ▲ Does the Bank understand my organization's funding sources and any cyclicity of payments?
- ▲ Does the bank offer deposit accounts and supporting cash management services? What is the availability of deposited funds? Does my organization have direct access to a cash management representative? Can the Bank demonstrate their cash management services and capabilities?
- ▲ Will the Bank provide me with a cost analysis compared to my existing deposit services provider?
- ▲ Can the Bank provide my organization with industry references to verify its performance and capabilities?
- ▲ What is the account officer turnover rate?
- ▲ How responsive is the Bank?

## Financing for Nonprofit Organizations

### INITIAL BACKGROUND INFORMATION A LENDER WILL NEED

**History of organization:** Services provided and how they have evolved since inception

**Management team:** Titles and functions of senior management; Length of tenure with organization and time in present position; Backgrounds prior to joining organization

**Board of Directors:** Complete list of members with background information and length of time on Board

**Funding sources:** Billing methods and normal payment pattern

**Components of loan request:** Size; Working capital line; Equipment financing; Mortgage debt; Pledge loan; etc.

**Accounting Information:** Name of CPA firm and level of financial reporting (i.e. tax return only or CPA prepared financials; compiled, reviewed or audited financials); Name of partner at CPA firm who handles your engagement

**Number of employees:** Full-time; Part-time; Union or non-union; Length of current union contract

**Internal Financial Reporting:** Frequency; Listing of reports prepared

### INITIAL PACKAGE OF FINANCIAL INFORMATION NEEDED BY COMMONWEALTH BANK ON LOAN REQUEST

- ▲ Minimum of three (3) years financial statements
- ▲ Most recent interim financials along with prior year period for comparison
- ▲ Current budget
- ▲ Most recent accounts receivable and account payable agings

### STRUCTURING OF LOANS FOR NONPROFIT ORGANIZATIONS

There are a number of primary considerations each Bank addresses when structuring financing packages:

**Matching loan to purpose.** Current assets, primarily accounts receivables when lending to nonprofits, are financed via a working capital line of credit. This line would be expected to reduce in tandem with reductions in receivables, and thereby be available to support cash needs when receivables increase due to timing of revenue receipts.

## Financing for Nonprofit Organizations

Fixed asset purchases such as equipment and furniture are financed through term debt, which is based on the useful life of assets, but cannot exceed seven (7) years. Working capital lines should not be used for fixed asset acquisitions.

Real estate acquisition and renovation are financed on a longer amortization of debt (up to 20 years) based on the extended useful life of this asset. Pledge receivables (typically through capital campaigns) to support real estate acquisition/renovations can be considered for financing based on term of the pledges and the anticipated payment of such pledges. Typical repayment is interest payable monthly with a minimum annual principal reduction by January 10th of each year. This repayment matches the preponderance of pledges being collected in late December of each year (for tax purposes).

The above is a general outline of loan structuring which serves the purpose of matching the loan repayment to the expected sources of cash. These structurings help to maintain the integrity of an organization's balance sheet, which is of vital importance to lenders and the various organizations that supply grants and contributions to nonprofits.

**Supporting loans with collateral.** Each type of loan is typically supported by a specific match of collateral which by its nature is best suitable to short, intermediate or long term financing. The following collateral and ratios usually support the aforementioned loan facilities when Banks lend to nonprofits:

**Working capital lines** are secured by receivables that are 90 days or less from date of invoice. In certain instances that Bank will advance on receivables up to 120 days when justified by normal industry conditions.

**Term debt** up to 7 years is supported by fixed assets @ 80% of their cost.

**Mortgage debt** up to a 20 year amortization is secured by a first mortgage lien at up to 80% of the lower of cost or appraised value. Certain user specific type properties may be restricted to 75% or less loan to value.

## Financing for Nonprofit Organizations

**Pledge loans** are typically for 5 year maximums and advance rates are based on the estimated quality of the pledges. Heavy concentration of pledges with a small group of individuals or lesser-known organizations may further limit the amount the Bank will advance. This is due to concerns of negative impact if a particular pledge should become impaired. Pledges by their nature are not strong collateral, so a great deal of subjective analysis is undertaken by the Bank to determine a comfortable advance level. Well-known donors, breadth of pledgors and prior success in an organization's campaign efforts can substantially contribute to the advance percentage the Bank will allow.

All of the collateral segments in the preceding outline match collateral to specific facilities. A lender will also do an analysis of aggregate loan exposure to the aggregate collateral. A shortfall in particular collateral segment can then be possibly offset by excess collateral in another segment. It is typical that all of a lender's loans are cross-collateralized,

Banks recognize that certain nonprofits, such as providers of mental retardation services, receive 100% reimbursement for financed fixed assets. Some Banks have structured a number of loan packages which allow 100% financing of real estate, equipment, vehicles, furniture, etc. to aide the cash flow of these providers. The bank does so by aggregating collateral pools. For example, some Banks will consider financing 100% of a new real estate acquisition when the Bank is able to use excess equity in other pledged real estate to stay within a maximum 80% loan to value.

**Loan pricing.** This is one of the earliest questions any borrower asks of a lender. It is a question that a lender cannot fairly answer until the lender is in receipt of the preliminary financial information as outlined earlier in this section. Among the factors that go into pricing of loan facilities are:

- ▲ Historical excess revenues
- ▲ Historical cash flow
- ▲ Strength of balance sheet
- ▲ Balance sheet liquidity
- ▲ Ability to service present & proposed debt
- ▲ Overall collateral strength
- ▲ Industry trends
- ▲ Level of monitoring required
- ▲ Overall deposit relationship

## Financing for Nonprofit Organizations

**Bank Qualified Tax-Free Financing.** Some Banks are capable of providing tax-free (to Bank) financing to 501(c)(3) organizations. This results in substantial interest cost savings to providers as rates are typically 30% less than conventional loan rates.

The following outlines some of the parameters related to tax-free financing:

- ▲ Must be for fixed asset purchases (real estate, equipment, etc) or refinancing of prior loans used for fixed asset acquisitions.
- ▲ Each issuance of Bank qualified tax-free financing cannot exceed \$10 million dollars.
- ▲ Subject to satisfactory tax opinion from bond counsel.
- ▲ Cannot be used to finance assets used exclusively for religious purposes (i.e. sanctuary portion of real estate).

There are specific additional costs that pertain to tax-free financing — authority fees, authority counsel, bond counsel, etc — that will vary based on the size of the transaction. The Bank will provide an estimate of these charges. A cost/benefit analysis will be provided to approximate the net interest savings to the nonprofit organization.

## Financial Reporting for Nonprofit Organizations

### 1. THE BASIC FINANCIAL STATEMENTS

The key objectives for financial reporting by nonprofit organizations relate to the NPOs ability to provide services. Information in the financial statements should help readers:

- Evaluate the NPOs services and its ability to continue to provide these services.
- Evaluate management's administration and other aspects of its performance.
- Understand the organization's resources and obligations.
- Judge the performance of the organization by evaluating the changes in its net resources.
- Evaluate the organization's liquidity and use of cash.
- Understand the financial information presented through explanations and interpretation of the data in the statements.

Financial reporting should be sensitive to the needs of the user. Users of nonprofit financial statements include creditors, customers, regulatory agencies, vendors, management and board members. Organizations receiving funding from governmental sources (federal, state or local sources) either directly or indirectly (subrecipient) may be subject to the OMB Circular A-133 standards or to certain other "agreed upon procedures" determined by the funding agency. For these reasons, management of nonprofit organizations has a fiduciary responsibility to provide accurate, reliable financial information.

Changes in financial reporting standards and principles (FASB Nos. 116, 117 and 124) now require NPOs to report contributions on the accrual bases of accounting; investments at fair value and financial information based on net assets classified solely on the basis of donor restrictions. These changes

## Financial Reporting for Nonprofit Organizations

are intended to make the financial statements similar to "commercial type" statements and more readable by the financial community and public.

In addition, recent changes to accounting principles generally accepted in the United States of America now require NPO's to account for derivative and hedging transactions (FASB Nos. 133 and 138). They must also report assets received from donors, with instructions to disburse these assets to a specific beneficiary, as a liability instead of revenue, unless the NPO has the ability to redirect the donation to another beneficiary (variance power) (FASB No. 136).

While financial statements prepared in accordance with generally accepted accounting principles typically follow rules promulgated by the American Institute of Certified Public Accountants, there are times that state law will supercede GAAP. For instance in Pennsylvania, NPO's using a "spending rate" might record current unrestricted and temporarily restricted income differently than under GAAP.

These standards have resulted in several new names for financial statements; however, no particular financial statement titles or formats are required or prohibited.

### **Net Asset Model**

Statement of Financial Position

Statement of Activities

Statement of Cash Flows

Statement of Functional Expenses

### **Fund Accounting Model**

Balance Sheet

Statement of Support,  
Revenue and Expenses and  
Changes in Fund Balances

Statement of Cash Flows

Statement of Functional Expenses

The reporting standard requires that certain totals and disclosures be presented relating primarily to net assets, liabilities and changes in net asset totals. There is flexibility in presenting certain information either in notes to the financial statements or the statements themselves.

## Financial Reporting for Nonprofit Organizations

NPO statements should include consolidation of for-profit entities in accordance with the equity method of accounting and other NPO entities in which the organization has voting control and economic interest, if other than temporary. If consolidation of supporting or affiliated NPO is not required, disclosure of the organization, nature of related party transactions and summarized financial information should be presented.

NPO financial statements should be prepared on the accrual basis of accounting to more accurately report revenues and expenses.

### 2. STATEMENT OF FINANCIAL POSITION

The primary focus of the statement of financial position is on the liquidity and equity of the organization as a whole. The statement should provide relevant information about an organization's total assets, liabilities and net assets and about their relationship to each other. The statement should provide information regarding (a) the organization's ability to continue to provide services and (b) the interrelationship of the organization's assets and liabilities and (c) the organization's liquidity and financial flexibility, so it can respond to unexpected needs and opportunities.

One or more of the following can provide information about liquidity:

**Sequencing** Assets are listed in order of their nearness to being converted into cash. Liabilities are listed in order of their maturity and expected use of cash resources.

**Classification** Assets and liabilities are classified as either current or noncurrent in the statement of financial position.

**Disclosure** Information regarding the liquidity of assets and liabilities, including any restrictions, is presented in the notes to the financial statements.

**Equity** Unrestricted, temporarily and permanently restricted net asset balances must be reported. These amounts may be segmented to provide further detail.

## Financial Reporting for Nonprofit Organizations

Temporarily restricted net assets represent net assets resulting from contributions and other inflows of assets whose use by the organization is limited by donor-imposed restrictions that either expire by passage of time or can be fulfilled and removed by actions of the organization in accordance with those restrictions.

Permanently restricted net assets represent net assets resulting from contributions and other inflows of assets whose use by the organization is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

The details about temporarily and permanently restricted net assets are required to be reported. This information should include descriptions and dollar amounts of the restricted net assets, which are generally disclosed in the notes to the financial statements. The descriptions may include the purpose of various donor restrictions and when restrictions will lapse.

Unrestricted net assets represent net assets that are neither permanently nor temporarily restricted by donors. Board designated or appropriated assets are legally unrestricted assets, which the Board has set aside for specific purposes. Unrestricted net assets may be separately identified within the class or designated for specific purposes.

### 3. STATEMENT OF ACTIVITIES

The primary areas of focus for the *statement of activities* are:

- Types and amounts of revenues received
- Dollar values and types of programs and supporting services provided
- Changes in each class of net assets during the period

The *statement of activities* should provide relevant information about how the organization's resources are used in providing various programs or services.

## Financial Reporting for Nonprofit Organizations

This information is communicated to the user by reporting:

- Revenues as increases in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions, or by law.
- Expenses as decreases in unrestricted net assets.
- Realized and unrealized gains and losses on investments and other assets or liabilities as increases or decreases in unrestricted net assets unless the related gains or losses are restricted by donor stipulation or by law.
- Net gains or losses resulting from incidental transactions or special fund raising events.
- Events that simultaneously increase one class of net assets and decrease another.

The *statement of activities* summarizes the NPO's operating results and is similar to an income statement of a for-profit entity. Under FASB No. 117, the statement of activities may be prepared based on the types of revenues received by the NPO — unrestricted, temporarily restricted, or permanently restricted. The segregation of revenues is based upon the contributor's, grantor's or donor's intent — not on how the NPO intends to use the revenue received. Exchange transactions — performing services in exchange for funding, i.e., cost reimbursement or fee for service contracts — are considered unrestricted revenues to the extent expenses are incurred. Generally, all activities of NPOs are shown in the unrestricted fund. Revenues which are time or purpose restricted are transferred to unrestricted net assets when the restriction has been met. Custodial (Agency) transactions are not shown in the statement of activity as they represent "pass through" transactions. Instead, they are reported in the statement of financial position (balance sheet).

Combining items that have similar characteristics into reasonably comparable groups provides information about revenues and expenses.

## Financial Reporting for Nonprofit Organizations

In recording the change in a class of net assets from the beginning to the end of a period, the NPO should use descriptive terms such as change in net assets or change in equity. The terms *fund balance* or *changes in fund balances* are not used because those terms refer to separate groups of assets and related liabilities rather than to an entity's net assets or changes in net assets taken as a whole.

Classifying revenues, expenses, gains, and losses within classes of net assets does not preclude incorporating additional classifications within a *statement of activities*. Within a class or classes of changes in net assets, an organization may classify items as:

- Operating and nonoperating.
- Expendable and nonexpendable.
- Recurring and nonrecurring.

### 4. STATEMENT OF FUNCTIONAL EXPENSES

All organizations must report expenses by functional categories (program types, management, and fund raising). Voluntary health and welfare organizations must also report expenses by natural classification (salaries, benefits, rent, contract service) in a matrix format in a statement of functional expenses. The *functional expense* categories become the expense categories in the statement of activities. Gains, losses and other nonrecurring events should not be shown on the *statement of functional expenses*. The types of functions reported will vary by NPO and generally correspond to the types of services for which funding is received.

### 5. STATEMENT OF CASH FLOWS

The *statement of cash flows* is a required part of the complete set of basic financial statements for nonprofit organizations. Its primary purpose is to provide relevant information about the NPO's cash receipts and cash payments. This statement reports an organization's cash inflows and outflows from financing, investing, and operating activities during the reporting period and the net effect of these activities on cash balances.

## Financial Reporting for Nonprofit Organizations

Financing Activities - Financing activities for NPOs include proceeds from borrowing or issuing debt and principal repayments. The following transactions unique to NPOs are also included in the *statement of cash flows* as financing activities:

- Receipt of investment income restricted for reinvestment.
- Contributions restricted for long-term investment.
- Contributions restricted for acquisition of plant and equipment.

Investing Activities - NPOs report purchases and sales of investments and long-lived assets as investing activities.

Operating Activities - Operating activities consist of all activities not defined as investing or financing activities. Operating activities as defined for the *statement of cash flows* is a broad term and may not correspond to operations as presented in the *statement of activities*. Operating activities under the indirect method relate to changes in net assets.

Cash and Cash Equivalents - Cash is defined as currency, demand deposits with banks and other institutions, and other accounts with the general characteristics of demand deposits.

Cash equivalents are defined as highly liquid investments that are both:

- Readily convertible to known amounts of cash, and
- So near their maturity they present insignificant risk of changes in value because of changes in interest rates.

Non-cash Financing and Investing Activities - The financing of capital purchases through financing or leasing arrangements, the receipt of donated long-lived assets, or investment securities are examples of transactions that should be disclosed in the *statement of cash flows* as supplemental information.

## Financial Reporting for Nonprofit Organizations

### FINANCIAL STATEMENT DISCLOSURE

Notes to the financial statements are intended to add clarity to and additional information about the financial information presented. In addition to disclosures required by accounting principles generally accepted in the United States of America about financial activities during the reporting period(s), external factors affecting the NPO should be discussed, if not readily apparent from the financial statements. Such disclosures could include information on funding sources, future events, uncertainties, concentrations of risk, commitments, related party transactions, volunteer activities and accounting estimates used in the statements. Such information adds to a reader's understanding of the NPO's activities.

Other Required Financial Statements Unique to NPO's - In addition to the "basic financial statements" described in the preceding pages, NPO's that receive federal, state or local funding may be subject to additional reporting rules under OMB Circular A-133 or *Government Auditing Standards*. Generally, those NPOs expending \$300,000 or more of federal awards either directly or indirectly are subject to the reporting requirements of OMB Circular A-133 and will have additional reports rendered on the following:

- ▲ Expenditure of federal awards
- ▲ Compliance with laws and regulations and internal control over financial reporting
- ▲ Compliance with requirements applicable to each major program and internal controls over compliance

Recipients of federal and other funding have a fiduciary responsibility to maintain financial and other records as required by their contract with the funding agency.

## Payroll and Nonprofit Tax Reporting Nonprofit Organizations With Employees

### 1. FEDERAL FORMS TO BE FILED

Every nonprofit organization paying wages to its employees is required to withhold from the employees' gross earnings specified amounts of Federal Income, Social Security, and Medicare taxes under the Federal Contribution Insurance Act (FICA).

Federal Income Tax is a prepayment of the employee's personal income tax obligation. The amount of tax withheld from the employee's compensation is based on the pay period, the employee's marital status and the number of exemptions the employee has claimed on Federal Form W-4. The amount to be withheld is determined from the tables in the Federal Circular E published by the Internal Revenue Service.

Wages are subject to the FICA tax, which is really made up of two taxes:

- 1) Social Security tax of 6.2% up to a maximum amount of annual compensation, and
- 2) Medicare tax of 1.45% on all compensation.

FICA taxes are withheld from employee compensation and matched by the employer. The Federal forms relating to these taxes are Form 941 and Form 8109.

**Form 941** - is the "Employer's Quarterly Federal Tax Return." It summarizes and reports to the IRS the amount of Federal Withholding, Social Security, and Medicare withheld from all the employees, and the employer's portion of the Social Security and Medicare taxes.

<u>For the Quarter:</u>	<u>The Due Date is:</u>
Jan-Feb-March	April 30
April-May-June	July 31
July-Aug-Sept	October 31
Oct-Nov-Dec	January 31

If you deposit taxes (see Form 8109 on next page) on a regular basis, you

## Payroll and Nonprofit Tax Reporting Nonprofit Organizations With Employees

### 1. FEDERAL FORMS TO BE FILED (continued)

have 10 additional days at the close of the quarter to file Form 941. For example, if you deposited all of the required taxes for the quarter ended March 31, the Form 941 for that quarter will be due on May 10 instead of April 30.

**8109.** This is the Federal Tax Deposit Coupon Book containing fifteen coupons for depositing all types of taxes. Check the box marked "941" and use this coupon to deposit Income, Social Security (FICA), and Medicare taxes withheld from employees' wages and the employer's FICA and Medicare taxes. Take the deposit, along with the coupon, to an authorized financial institution or a Federal Reserve Bank or branch. If preferred, you may mail your coupon and payment to the address listed on page 42. The frequency of these deposits depends on the amount of taxes due in a given pay period.

### SUMMARY OF CURRENT REGULATIONS FOR FICA, MEDICARE AND FEDERAL WITHHOLDING TAXES:

#### MAKING PAYMENT

▲ Beginning with the first quarter of 2001, employers with less than a \$2,500 tax liability during the quarter may make a payment with Form 941. If unsure whether tax liability will be less than \$2,500, make the appropriate deposit to avoid deposit penalties.

#### DEPOSIT SCHEDULES

There are 2 deposit schedules

- ▲ Monthly
- ▲ Semiweekly

These schedules determine which set of deposit rules must be followed when an employment tax liability arises. The deposit schedule is not determined by how often employees are paid, but are based on the date wages are paid.

## Payroll and Nonprofit Tax Reporting Nonprofit Organizations With Employees

### 1. FEDERAL FORMS TO BE FILED (continued)

#### LOOKBACK PERIOD

- ▲ The deposit schedule used is based on the total tax liability reported on Form 941 during a 4-quarter lookback period.
- ▲ The lookback period begins July 1 and ends June 30  
Ex. For calendar year 2001, the lookback period is
 

Quarter 1	7/1 – 9/30
Quarter 2	10/1 – 12/31
Quarter 3	1/1 – 3/31
Quarter 4	4/1 – 6/30

#### MONTHLY SCHEDULED DEPOSITS

- ▲ If \$50,000 or less was reported for the entire 4-quarter lookback period, monthly deposits are necessary.
- ▲ Taxes on employee payments made during a month must be deposited with Form 941 by the first day of the following month. (Do not file Form 941 on a monthly basis)

#### NEW EMPLOYERS

- ▲ For the first calendar year of business, new employers are considered monthly scheduled depositors.

#### SEMIWEEKLY SCHEDULED DEPOSITS

- ▲ If \$50,000 or more was reported for the entire 4-quarter lookback period, semiweekly deposits are necessary.
- ▲ If an employer's payday falls on a Wednesday, Thursday or Friday, then taxes must be deposited by the following Wednesday.
- ▲ If an employer's payday falls on a Saturday, Sunday, Monday or Tuesday, then taxes must be deposited by the following Friday.

#### NEXT DAY DEPOSITS

- ▲ Employers with an accumulated liability of \$100,000 or more on any day must deposit the tax within one banking day.
- ▲ If over \$100,000 is accumulated in one day for a semiweekly depositor, stop accumulating at the end of that day and begin to accumulate new totals on the next day and continue to follow the regular semiweekly schedule (see above).

## Payroll and Nonprofit Tax Reporting Nonprofit Organizations With Employees

### 1. FEDERAL FORMS TO BE FILED (continued)

- ▲ If over \$100,000 is accumulated in one day for a monthly scheduled depositor, stop accumulating at the end of that day and begin to accumulate new totals on the next day, BUT follow the semiweekly deposit schedule for the rest of the calendar year and for the following calendar year.

#### ELECTRONIC DEPOSITS

- ▲ Taxes must be paid using the Electronic Federal Tax Payment System (EFTPS) in 2001 if:

1. The total deposits of the taxes in 1999 was more than \$200,000  
Or
2. Use of EFTPS was required in 2000.

- ▲ Transactions for EFTPS must be initiated one business day before the date the deposit is due.

For more information or to enroll in EFTPS, call 1-800-555-4477.

#### FEDERAL TAX DEPOSIT COUPONS

- ▲ These coupons are used for all deposits, except for those done by EFTPS. Use Form 8109, Federal Tax Deposit Coupon to make the deposits at a financial institution that is authorized to accept Federal tax deposits.
- ▲ New employers will automatically receive the coupon book 5-6 weeks after receiving an employer identification number.
- ▲ All other employers will be sent the coupon books automatically, when the previous book is used up. (The IRS keeps track of the number of FTD coupons used.)

## Payroll and Nonprofit Tax Reporting Nonprofit Organizations With Employees

### 1. FEDERAL FORMS TO BE FILED (continued)

**W-2** - This form is the “Wage and Tax Statement.” It summarizes the gross compensation paid to, and the taxes withheld from, an employee. At the end of each calendar year, a W-2 is prepared for each employee, reporting the employee’s wages (salary) for that year.

▲ Copy A of the W-2 is mailed with Form W-3 to the Social Security Administration.

Copy 1 of the W-2 is mailed with Form 501R to Pennsylvania.

Copy 2 of the W-2 is mailed with Form 83-T-47 to the City of Philadelphia, if city wage tax has been withheld.

Copy D of the W-2 is kept for the employer’s files.

Copy B, C and the other Copy 2 of the W-2 are given to the employee no later than January 31st of the following year.

**W-3** - Form W-3 is the “Transmittal of Income and Tax Statements.” The wages paid and taxes withheld for all employees, in total, are reported on this form. It is sent to the Social Security Administration with all Copy A’s of all the employees’ Form W-2s. The W-3 must be filed no later than February 28th of the following year.

**W-4** - When an employee is newly hired, the new employee must complete the Form W-4, “Employee’s Withholding Allowance Certificate”. The W-4 reports the employee’s marital status and the number of allowances the employee wishes to claim for income tax purposes. An allowance may be claimed for the employee, the employee’s spouse, and dependents of the employee, for blindness and for being age 65 or over. Any time an employee’s marital status or number of allowances changes, a new W-4 must be filed by the employee with the employer. Employers must send to the Internal Revenue Service copies of any Form W-4 on which an employee has claimed more than 10 withholding allowances. Also, if any employee is expected to earn more than \$200.00 per week and claims exemption from all income tax, the employee’s W-4 must be sent to the Internal Revenue Service. These W-4’s are to be mailed with the Form 941 at the end of a quarter.

## Payroll and Nonprofit Tax Reporting Nonprofit Organizations With Employees

### 1. FEDERAL FORMS TO BE FILED (continued)

**I-9** - When an employee is hired he/she must also complete Section 1 of Form I-9, Employment Eligibility Verification. The employee must provide some form of identification from the list of acceptable documents found in the instructions to Form I-9 to prove that he/she is eligible to work in the United States. The employer is responsible for ensuring that Section I is timely and properly completed by the employee for completing Section 2 of Form I-9. The employer must complete Section 2 by examining the evidence of identity and employment eligibility within three business days of the date employment begins.

### 2. PENNSYLVANIA FORMS TO BE FILED

**PA-501 or PA-501R** - All Pennsylvania employers must withhold personal income tax from the wages of state residents.\* Form 501, “Employer Deposit Statement of Income Tax Withheld” is mailed with the remittance of all state income taxes withheld to the Commonwealth of Pennsylvania, Department of Revenue. New employers use Form 501R for the same purpose as Form 501. Continuing employers automatically receive Form 501 with the employer’s name and identification number preprinted.

**PA- W-3 or PA-W-3R** - Form W-3 is the preprinted “Employer’s Quarterly Return of Income Tax Withheld.” This form summarizes Pennsylvania Income Tax that was remitted with Form 501 during the previous quarter.

If the amount withheld is  
\$300 or less

At least \$300 but  
less than \$1,000

More than \$1,000

Payment must be made:

by the last day of April, July, October and January monthly, on or before the 15th day of the succeeding month for January to November and before January 31 for the month of December. within three banking days after the close of each semi-monthly period. The semi-monthly periods end on the 15th and last day of the month.

*New employers use form W-3R for the same purpose.*

\*Note: Special consideration must be given to out-of-state employees. Please contact your tax advisor or state for further information.

## Payroll and Nonprofit Tax Reporting Nonprofit Organizations With Employees

### 2. PENNSYLVANIA FORMS TO BE FILED (continued)

**UC-2** - Most nonprofit employers must also pay state unemployment compensation tax. This tax is calculated on gross wages at a percentage based on the type of nonprofit organization and other factors. All tax due is remitted by the last day of the month following the end of the quarter on Form UC-2.

Nonprofits who have been issued 501(c)(3) determination letters by the Federal government can either use the contributory or reimbursement method. The reimbursement method entails filing a UC-2 with a continuation list of the employees showing gross earnings. If a claim is filed the organization must then contribute dollar for dollar with the state monthly to cover the claim. Only religious organizations are truly exempt from PA state unemployment, but they can elect to cover their employees by contributing or not.

**REV-1667** - The State copy of all W-2 forms (i.e., of the W-2s of all employees) is mailed with Form REV-1667 no later than January 31st of the following year.

### 3. PHILADELPHIA WAGE TAX COUPON

The Philadelphia Wage Tax coupon is the “Employer’s Return of Tax Withheld.” All employers must withhold City Wage Tax from wages of employees who work or live within the official boundaries of the City of Philadelphia. This tax is calculated on the employee’s gross compensation at the following rates, effective July 1, 2001:

for residents	4.5385%	(.045385)
for non residents	3.9462%	(.039462)

## Payroll and Nonprofit Tax Reporting Nonprofit Organizations With Employees

### 3. PHILADELPHIA WAGE TAX COUPON (continued)

The frequency of payment depends on the amounts of tax withheld in a one-month period, as follows:

**\$350 or less**

by the last day of the month following the end of the calendar quarter and by February 15th for the last calendar quarter.-**Form W-1**

**more than \$350 but less than \$16,000**

by the 25th day of the following month and by February 15th for the last calendar quarter.- **Form W-5**

**more than \$16,000**

within three banking days of each pay date (the date on which payment is made to the employee), not to exceed one payment in a seven-day period.- **Form W-7**

### 4. ANNUAL RECONCILIATION OF WAGE TAX

This form summarizes the City Wage Tax that has been paid during the previous year; and it summarizes (reconciles) the total tax payments made with the total of city taxes as reported on all the employees’ W-2s.

The City copy of all W-2 forms is mailed with the Annual Reconciliation no later than February 28th of the following year.

## Payroll and Nonprofit Tax Reporting All Nonprofit Organizations With or Without Employees

### FEDERAL FORMS TO BE FILED

**990** - Organizations exempt from taxes under the Internal Revenue Code (IRC) Section 501(c) are required to file a Form 990 annually, except the following types of organizations:

- ▲ a church, an association of churches, or a church auxiliary
- ▲ an exclusively religious activity of any religious order
- ▲ an organization which normally does not have more than \$25,000 in gross receipts for the year\*
- ▲ a mission society sponsored by, or affiliated with, a church
- ▲ a school which is affiliated with a church and is below college level
- ▲ a state institution
- ▲ a corporation organized under an Act of Congress

**990PF** - Private foundations are required to file Form 990PF annually.

\* If an organization that normally does not have gross receipts in excess of \$25,000 is sent a 990 package by the Internal Revenue Service, it should file the form by doing the following:

Attach the preprinted label to page 1 of the form and check the box in the area under Section k. Sign and mail the form to the Internal Revenue Service Center.

Both the 990 and 990PF must be filed with the Internal Revenue Service by the 15th day of the fifth month after the end of the organization's fiscal year. An automatic three-month extension to file the 990 and 990PF can be requested by completing Form 8868 by the due date of the return. If necessary, an additional three-month extension may be granted by the IRS by filing another Form 8868.

## Payroll and Nonprofit Tax Reporting All Nonprofit Organizations With or Without Employees

### FEDERAL FORMS TO BE FILED (continued)

The following schedule should be used to determine the date when the 990 is due.

<u>IF THE FISCAL YEAR ENDS</u>	<u>DUE DATE</u>
January 31	June 15
February 28/29	July 15
March 31	August 15
April 30	September 15
May 31	October 15
June 30	November 15
July 31	December 15
August 31	January 15
September 30	February 15
October 31	March 15
November 30	April 15
December 31	May 15

**990T** - This is the "Exempt Organization Business Income Tax Return. This form must be filed by any tax-exempt organization which receives, within its fiscal year, gross income of \$1,000 or more from an unrelated trade or business. This form must be filed with the Internal Revenue Service by the 15th day of the fifth month after the end of the organization's fiscal year. (See previous schedule.)

**8282** - This form must be filed by donee organizations who sell, exchange, consume or otherwise dispose of (with or without consideration) charitable deduction property within two years after the date the original donee received the property. This form is due within 125 days after the date of disposition.

**W-2-G** - This form is used to report gambling winnings of \$600 or more. Form 5754 should be used if more than one person is entitled to any part of the winnings.

## Payroll and Nonprofit Tax Reporting All Nonprofit Organizations With or Without Employees

### FEDERAL FORMS TO BE FILED (continued)

**1099-MISC** - When an organization pays more than \$600 in any calendar year to an individual who is not a direct employee (i.e., to a consultant) Form 1099 MISC must be filed. Form 1099 MISC is the "Statement for Recipients of Miscellaneous Income." Federal Circular E (publication 15) may be consulted for information on who is and who is not considered a direct employee. Copy A of the 1099 is mailed with Form 1096 to the Internal Revenue Service by February 28th of the following year. Copy B is to be given to the recipient by January 31st of the following year. Copy C of the 1099 is kept for the organization's records.

**1096** - This form is a transmittal or cover form, which must accompany all the Forms 1099 filed. Copy A of the 1099 forms are to be mailed with a 1096 no later than February 28th of the following year. A separate 1096 must be used for each type of 1099 (i.e., 1099-MISC, 1099-INT, etc.).

**4720** - This form is used by a private foundation, foundation manager, or disqualified person if subject to penalty taxes. The filing due date is the 15th day of the fifth month after close of taxable year.

**1120POL** - This form is used by political organizations. The filing due date is the 15th day of the third month after close of taxable year.

**1120H** - Homeowner's associations use this form. The filing due date is the 15th day of the third month after close of taxable year.

## Payroll and Nonprofit Tax Reporting All PA Nonprofit Organizations With or Without Employees

### PENNSYLVANIA FORMS TO BE FILED

#### The Bureau of Charitable Organizations Registration

- In 1971, the Commonwealth of Pennsylvania established a Bureau of Charitable Organizations (BCO) (formerly the Commission on Charitable Organizations) to safeguard the public solicitation of charitable funds.
- The BCO requires most nonprofit organizations (other than churches, certain educational organizations, hospitals and other specified groups), which intend to solicit contributions from the public in Pennsylvania to register annually with the Department. There is an exemption from general filing for organizations that receive \$25,000 or less in annual contributions, provided the organization does not compensate any person who conducts solicitations.

An organization which is exempt from the general filing rules must still file a Institution of Purely Public Charity Registration Statement along with a copy of its 990 and Schedule A.

A charitable organization is required to file a Charitable Organization Renewal Registration Statement (Form BCO-10). The following rules apply:

- Complete, sign, and have registration statement notarized. (Include all required attachments and answer all questions accurately and completely.)
- Attach a complete copy of organization's IRS 990 Return and Schedule A. Make sure you include copies of all pages and attachments. (Organizations which are not required to file any 990 return with the IRS must request a BCO-23 Form from the Bureau.)
- Include audited, reviewed, or compiled financial statements. (See chart on next page.)
- Attach the correct registration fee payable to the Commonwealth of Pennsylvania. (See chart on next page.)
- First time registrants must also submit copies of other official documents, such as their organizational charter and by-laws.

## Payroll and Nonprofit Tax Reporting All PA Nonprofit Organizations With or Without Employees

### PENNSYLVANIA FORMS TO BE FILED (continued)

Gross Annual Contributions <sup>1</sup>	Annual Registration Fee	Type of Financial Statements Required
Organization described below <sup>2</sup>	\$15	None
\$25,000 or less	\$15	Compiled
\$25,001 to < \$50,000	\$100	Compiled
\$50,000 to \$100,000	\$100	Reviewed or Audited <sup>3</sup>
\$100,001 to < \$125,000	\$150	Reviewed or Audited <sup>3</sup>
\$125,000 to \$500,000	\$150	Audited
\$500,001 and over	\$250	Audited

<sup>1</sup> To determine "gross" annual contributions" add lines 1a, 1b, and 9a from your organization's 1RS 990 return or see line 6 from your BCO-23 Form if not required to file a 990. If your organization filed a 990 EZ for the year in question, add lines 1 and 6a and then subtract any government grants.

<sup>2</sup> 1) Persons or organizations which solicit contributions for the relief of a specific individual which turn over all contributions collected without any deductions, whatsoever to the specific individual; 2) organizations which only use their own members to solicit other bona fide members of the organization; 3) organizations which solicit no more than \$25,000 per year whose fundraising activities are carried on solely by permanent employees; and 4) veterans organizations chartered under Federal law, organizations of volunteer firemen, ambulance associations, rescue squad associations' and their auxiliaries or affiliates which are not exempt from registration, did not receive contributions in excess of \$100,000, and did not use a professional solicitor.

<sup>3</sup> Veterans organizations chartered under Federal law, organizations of volunteer firemen, ambulance associations, rescue squad associations and their auxiliaries or affiliates which are not exempt from registration do not have to file reviewed or audited financial statements if their gross annual contributions exceeded \$25,000 but were less than or equal to \$100,000.

## Payroll and Nonprofit Tax Reporting All New Jersey Nonprofit Organizations With or Without Employees

### NEW JERSEY FORMS TO BE FILED

#### Charities Registration and Investigation Section

Every charitable organization - except those listed in (2) below - which intends to solicit contributions in New Jersey, from individuals or from governmental agencies, must file a registration statement with the State's charities Registration and Investigation Section PRIOR to any solicitations.

Religious organizations and educational institutions (approved by the State Department of Education) and certain local units of a parent organization are exempt from registration requirements.

Prior to soliciting contributions, organizations should fill out **Questionnaire Form CRI-100** to have the State of New Jersey determine the registration requirements.

Filing of Annual Reports - in every case an affidavit or an annual report must be filed as follows:

- File **Short Form CRI-200** if the organization:

1. did not solicit or intend to solicit and did not, in fact, receive contributions in excess of \$25,000, and if all the fundraising functions are carried on by persons who are unpaid for such services;

2. is exempt from long form registration by reason of any of the following status:

- a. a fraternal, patriotic, social or similar organization;
- b. persons requesting contributions for the relief of a specified individual, whose contributions are turned over (without any deductions) to the named beneficiary; and
- c. a local post, camp, chapter or similarly designated element.

**Payroll and Nonprofit Tax Reporting  
All New Jersey Nonprofit Organizations With or Without  
Employees**

**NEW JERSEY FORMS TO BE FILED (continued)**

Charities Registration and Investigation Section

All other "organizations" should file Long Form CR1-3001. An audited financial statement must accompany this form if gross revenue is more than \$100,000.

Filing fees for gross contributions are as follows for short form filers:

less than \$10,000	\$ 0
more than \$10,000 and less than \$25,000	\$ 30

Filing fees for gross contributions are as follows for long form filers:

less than \$100,000	\$ 60
\$100,000 to \$500,000	\$150
more than \$500,000	\$250

**How to Obtain the Necessary Forms**

FEDERAL

All forms:  
Forms Distribution Center  
P.O. Box 85074  
Richmond, VA 23261-5074  
(800) 829-FORM

PENNSYLVANIA- PA BUREAU OF CHARITABLE ORG.

Commonwealth of Pennsylvania Department of State  
Bureau of Charitable Organizations P.O. Box 8723  
Harrisburg, PA 17105  
(800) 732-0999  
[www.dos.state.pa.us](http://www.dos.state.pa.us)

Personal Income Tax

Form 501 W-3  
Commonwealth of Pennsylvania  
Department of Revenue Personal  
Tax Department Room 201  
1400 Spring Garden Street  
Philadelphia, PA 19130  
(215) 686-6621

PHILADELPHIA

All forms:  
City of Philadelphia  
Self Assessed Tax Division Income  
Municipal Services Building  
JFK Boulevard at 15th Street  
Philadelphia, PA 19102  
(215) 560-2056

NEW JERSEY

Registration of Charitable Organizations  
Division of Consumer Affairs Charities Registration Section  
124 Halsey Street - 7th Floor  
Newark, NJ 07102  
(973) 504-6200

PA UNEMPLOYMENT TAX

Form UC-2  
Bureau of Employment Security  
444 North 3rd Street Room 3-C  
Philadelphia, PA 19123  
(215) 560-1828  
[www.paopen4business.state.pa.us](http://www.paopen4business.state.pa.us)

DELAWARE

Annual Franchise Tax Report  
Division of Corporations  
Franchise Tax Section  
P.O. Box 7040  
Dover, DE 19903  
(302) 739-4225

## Where to Mail the Forms

### FEDERAL FORMS

Mail to:  
Forms W-3 and W-2's:  
Social Security Administration  
Data Operations Center  
1150 E. Mountain Drive  
Wilkes-Barre, PA 18769-0001

Forms 941 & 940EZ - if no tax is due with return:  
Internal Revenue Service Philadelphia, PA 19255

Form 941 if tax is due with 941(V):  
Internal Revenue Service  
PO Box 8786  
Philadelphia, PA 19162-8786

Form 940-EZ if tax is due with 940-EZ(V):  
Internal Revenue Service  
PO Box 8738  
Philadelphia, PA 19162-8738

Forms 990:  
Internal Revenue Service  
Ogden, Utah 84201-0027

### PENNSYLVANIA FORMS

Mail to:  
Form 501:  
PA Department of Revenue  
P.O. Box 280412  
Harrisburg, PA 17128-0412

W-3:  
PA Department of Revenue  
P.O. Box 280903  
Harrisburg, PA 17128 0903

## Where to Mail the Forms

### PENNSYLVANIA FORMS (continued)

PA UC-2:  
Bureau of Employment Tax Operations  
Labor & Industry Building Seventh & Forster Streets P.O. Box 68568  
Harrisburg, PA 17106-8568

Commonwealth of Pennsylvania Department of State  
Bureau of Charitable Organizations  
P.O. Box 8723  
Harrisburg, PA 17105

### PHILADELPHIA FORMS

Mail to:  
Wage Tax Forms:  
Philadelphia Revenue Department  
P.O. Box 8040  
Philadelphia, PA 19101-8040

Annual Reconciliation & W-2's:  
City of Philadelphia  
Department of Revenue  
P.O. Box 1670  
Philadelphia, PA 19105

### NEW JERSEY FORMS

Mail to:  
Registration of Charitable Organizations:  
Division of Consumer Affairs Charities Registration Section  
1100 Raymond Boulevard Room 507, Newark, NJ, 08732

### DELAWARE FORMS

Mail to:  
Annual Franchise Tax Report:  
State of Delaware  
Division of Corporations  
Dept. 74072  
Baltimore, MD 21274-4072

## Where to Obtain Additional Information

### FEDERAL

General Information  
 (877) 829-5500  
 TE/GE Division, Customer Service  
 P.O. Box 2508  
 Cincinnati, OH 45201  
[www.irs.gov](http://www.irs.gov)

### PHILADELPHIA

General Information  
 (215) 686-6600  
 Toll Free  
 (800) 829-1040  
 Nonprofit, Tax-Exemption Information  
 (215) 656-7700  
 Tax-Exempt Status Check  
 (301) 962-6058

All information  
 City of Philadelphia  
 Department of Revenue Room 240  
 Municipal Services Building  
 JFK Boulevard at 15th Street  
 Philadelphia, PA 19102  
 (215) 686-6602

### PENNSYLVANIA

Bureau of Charitable Organizations  
 Commonwealth of Pennsylvania  
 Department of State  
 Bureau of Charitable Organizations  
 P.O. Box 8723  
 Harrisburg, PA 17105  
 (800) 732-0999  
[www.dos.state.pa.us](http://www.dos.state.pa.us)

## Where to Obtain Additional Information

### PENNSYLVANIA (continued)

Personal Income Taxes  
 Commonwealth of Pennsylvania  
 Department of Revenue  
 Personal Income Tax Department  
 1400 Spring Garden Street  
 Philadelphia, PA 19130  
 (215) 560-2056

Unemployment Taxes  
 Bureau of Employment Security  
 444 North 3rd Street, Room 3-C  
 Philadelphia, PA 19123  
 (215) 560-1828  
[www.paopen4business.state.pa.us](http://www.paopen4business.state.pa.us)

### NEW JERSEY

General information  
 (609) 292-9292  
[www.state.nj.us](http://www.state.nj.us)

Center for Nonprofit Corporations  
 15 Rozel Road  
 Princeton, NJ 08540  
 (609) 683-7724  
 web site under construction

Charitable Organizations  
 Information  
 (973) 504-6200

### DELAWARE

General Information  
 (302) 739-3073

Annual Reports  
 (302) 739-4225

## Requirements of New Employers

1. New Employees must have a Federal Identification Number. Application is made by filing Form SS-4. Apply to:

Internal Revenue Service  
600 Arch Street  
Philadelphia, PA 19106  
www.irs.gov  
1-800-829-1040

2. Pennsylvania employers are liable for Pennsylvania Unemployment Taxes. Application is made for a Tax Identification Number by requesting application forms from:

Bureau of Employment Security  
Field Accounting Service  
444 North 3rd Street, Room 3-C  
Philadelphia, PA 19123  
(215) 560-1828  
www.paopen4business.state.pa.us

3. When withholding Pennsylvania Income Taxes, remit the tax on Form 501, which can be obtained from:

Pennsylvania Department of Revenue  
Personal Income Tax Department  
1400 Spring Garden Street  
Philadelphia, PA 19130  
(215) 560-2056

4. Philadelphia employers will need to apply for a city tax number. This application, along with the necessary payroll tax forms, can be obtained from:

City of Philadelphia Department of Revenue  
Room 240, Municipal Services Bldg. JFK Blvd & 15th Street  
Philadelphia, PA 19102  
(215) 686-6602

## Helpful Web Sites

### **National Center for Charitable Statistics**

2100 M St, NW  
Washington, DC 20037  
(202)261-5801  
nccs.urban.org

The National Center for Charitable Statistics (NCCS) is the national repository of data on the nonprofit sector in the United States. Its mission is to develop and disseminate high quality data on nonprofit organizations and their activities for use in research on the relationships between the nonprofit sector, government, the commercial sector, and the broader civil society.

For information and technical assistance for local 990-NACs please contact:

### **Local 990-NAC Project Office**

c/o National Society of Fund Raising Executives  
1101 King Street, #700  
Alexandria, VA 22314  
Phone: (800) 666-3863 ext. 481, Fax: (703) 684-0540  
E-mail: form990@nsfre.org  
www.qual990.org

For information about National 990-NAC, please contact:

### **The National Center for Charitable Statistics at the Urban Institute**

2100 M Street, NW  
Washington, DC 20037  
Phone: (202) 261-5790, Fax: (202) 833-6231  
E-mail: NCCS@ui.urban.org  
www.qual990.org

The Quality 990 (qual990.org) web site encompasses a number of projects and activities to improve the quality of IRS Form 990 reporting by nonprofit organizations.

## Helpful Web Sites

### **www.dol.gov/elaws**

Elaws Advisors help you understand your rights and responsibilities under the employment laws and regulations administered by the Department of Labor (DOL).

### **The Management Assistance Program for Nonprofits**

2233 University Avenue West, Suite 360

St. Paul, MN 55114-1629

General phone: (651) 647-1216, Fax: (651) 647-1369

www.mapnp.org

The Management Assistance Program for Nonprofits' web site contains the Free Management Library, a complete, highly integrated library of resources for nonprofit AND for-profit businesses

### **CompassPoint Nonprofit Services**

San Francisco Office

706 Mission Street, 5th Floor

San Francisco, CA 94103 USA

General info: (415) 541-9000, Fax: (415) 541-7708

www.compasspoint.org

Providing nonprofits with the management tools and concepts necessary to best serve their communities. Web site contains, "The Nonprofit Development Library" which is free to the public, with over 900 books, 15+ periodicals, and Internet access to help nonprofit staff & volunteers find the fundraising and management information they need.

### **Delaware Association of Nonprofit Agencies**

100 W. 10th Street, Suite 102

Wilmington, DE 19801

Phone: (302) 777-5500, Fax: (302) 777-5386

www.delawarenonprofit.org

DANA increases the effectiveness of Delaware's nonprofit organizations.

## Helpful Web Sites

### **Pennsylvania Association of Nonprofit Organizations**

132 State Street

Harrisburg, PA 17101

Phone: (717) 236-8584, Fax: (717) 236-8767

www.pano.org

PANO is a statewide organization serving and strengthening the charitable nonprofit sector through leadership, advocacy, and education services in order to improve the quality of life of Pennsylvania's people.

### **Nonprofit Issues®**

P.O. Box 482

Dresher, PA 19025

Phone: 1-888-NP-Issue, Fax: (215) 542-7548

www.nonprofitissues.com

Don Kramer's Nonprofit Issues® is a national newsletter of "Nonprofit Law You Need to Know" published by a member of the Nonprofit Law Group at Montgomery, McCracken, Walker & Rhoads, LLP. Its web site contains a series of Ready Reference Pages which spell out the rules on basic issues of nonprofit law.

### **GuideStar.com**

Philanthropic Research, Inc.

www.guidestar.com

GuideStar is a national database of information on nonprofit organizations produced by Philanthropic Research, Inc., a 501(c)(3) public charity founded in 1994. The mission of the organization's web site is to "revolutionize philanthropy and nonprofit practice with information." You can look up detailed results, financial, and programmatic information on most nonprofit agencies.





