

August 6, 2007

Internal Revenue Service  
Tax Exempt and Government Entities Division  
Office of Exempt Organizations  
Draft Form 990 Redesign  
Att'n: SE:T:EO  
1111 Constitution Ave  
Washington D.C. 20224

Re: Huge Loopholes in New Form 990 Dupe Donors: Prevent Transparency: Hide  
Waste and Excessive Compensation by Nonprofit, Tax exempt Hospitals  
Listed Persons  
Disregarded Entity  
Top Five Highest Paid Employees  
Officers

The proposed draft Form 990 may improve the transparency in financial reporting for tax exempt entities with simple corporate structures, but it is woefully inadequate in achieving a SEC-like goal of transparency in the financial dealings of sophisticated tax exempt entities with complex nonprofit corporate structures.

Virtually all for profit hospital systems are structured on a parent/ subsidiary corporate model. Each hospital is a separate subsidiary of the parent with separate FEIN and tax reporting requirements.

Many of the nation's large nonprofit tax exempt hospital systems are vastly more complex, with internal structures that enable them to evade transparency goals and hide excessive compensation to listed persons and abusive transactions. Many nonprofit hospital do not separately incorporate each hospital. Instead, a single nonprofit corporation may use multi-layered bylaws, governance structures, reserved and delegated internal powers, accounting cost centers and policies and procedures to operate the hospitals in the nonprofit health system through unincorporated operating units of the corporation. These unincorporated hospital operating units do business under an assumed name as a d/b/a of the single corporation. A nonprofit hospital system with an internal unincorporated hospital operating unit structure, does business in multiple states as a single foreign corporation. The internal structure of these large nonprofit health systems creates a multi-layered governance and management structure that mimics a parent/ subsidiary structure in many respects, within the confines of a single corporate entity, in the sense there are corporate and local boards, corporate and local board members, corporate and local officers, corporate and local management and corporate and local key employees. However, despite their multi-layered structure, there is only one FEIN and one Form 990 filed for the entire system, even though the FEIN or Form 990 may rollup many, many very large hospitals in multiple states, each with revenues in the hundreds of

millions and a management structure for each hospital that reflects its size and complexity.

Many of these unincorporated hospital operating units receive substantial support from charitable foundations, which exist as separate legal entities with their own tax exempt status, and which are dedicated to fund raising for the unincorporated hospital operating units in a local area. It is ironic (and non-transparent) that a donor can use the Form 990 to learn about the financial matters of the foundation, including cash and non-cash payment to listed persons (current and former officers, directors, trustees, key employees and top five highest paid employees), but cannot learn the same information about the listed persons of the unincorporated hospital operating unit that will be the ultimate beneficiary of the donation.

As a result, when a kind hearted member of the community is solicited for donations to the hospital so that it can create a new cancer center, or increase charity care to the indigent or underinsured, the donor has no way of knowing (because the form 990 hides this) that every member of the management team and many key employees of the unincorporated hospital operating unit enjoy cash and non-cash compensation that make them the highest paid individuals in the entire community. Had the form 990 required the hospital system to identify and report cash and non-cash compensation for all of the listed persons at the level of the unincorporated hospital operating unit as well as at the corporate level, then the disclosures made possible by this transparency would have given this donor the information necessary needed to make a more informed charitable contribution to another charity in the community with a deeper commitment to charity care or in more need of the donor's scarce and hard earned charitable dollars. As it is, a decision to donate was not an informed decision and it feels like a fraud on donors.

Further, in an attempt to keep local donors and community members in the dark about the financial dealings of the tax exempt hospital, many of these hospital systems "hide" the cash compensation and extremely generous and creative (everything but stock options) non-cash compensation they pay to the local boards, officers, managers and key employees of these unincorporated hospital operating units by placing these "listed persons" on a separate executive payroll with a separate executive compensation program at the corporate headquarters, rather than on local payrolls so that local eyes cannot pry into the pay received by these highly compensated employees. Again, it would seem that a goal is to hide the exceptional cash and non-cash compensation received by listed persons from people in the community who are so frequently called upon to support their local hospital, crying poverty. There is also a halo that many individuals wear who are associated with the management of nonprofit hospitals that should be tarnished by the incredible compensation that they receive for their services in relation to rank and file hospital staff and virtually everyone else in the community. If only people knew. If only there really was transparency.

The proposed Form 990 needs to be fixed to cure this transparency problem. Most important, Form 990 needs to be expanded to include all unincorporated operating units,

including each hospital. Given an expansion to unincorporated operating units, Form 990 reporting needs to include all types of non-cash compensation as well as cash compensation received by these individuals. The number of highest paid employees should be increased dramatically to 30 or more employees. As an alternative, the number of individuals reported could float but the trigger would be benchmarked to a multiple of the local area wage index so that individuals who are highly compensated by the standard in the community where the hospital is located would be reported. While these comments are written from the perspective of a donor who feels misled by a hospital's cry of poverty, the information on compensation and transactions at the level of unincorporated hospital operating units would also be of immense interest to unions and employers and other members of the public who purchase or pay for health care services. It would also be of interest to constituencies representing indigent interests or those of the underinsured.

Donor name withheld because this is a medium sized community.



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**Form 990 Redesign,  
Attn: SE:T:EO  
Internal Revenue Service  
1111 Constitution Ave, N.W.  
Washington, DC 20224**

Dear IRS Form 990 Redesign Staff:

The Illinois Hospital Association, on behalf of its nearly 200 members, welcomes this opportunity to submit comments on the Form 990 redesign, with particular emphasis on Schedule H. We applaud the Internal Revenue Service's efforts to enhance transparency in the nonprofit community and to provide a better understanding of nonprofit operations.

IHA has serious concerns with the new Schedule H for hospitals, which will be unduly burdensome for many hospitals, requires information that is not necessary to promote compliance with tax-exempt standards, and is duplicative of information from the core Form 990 redesign and several other schedules. In particular, the main concerns with Schedule H include the definition of community benefits, the timing for implementation of this schedule, and the section pertaining to billing and collections.

**Schedule H, Part I – Community Benefits**

**Medicare Shortfalls are Community Benefits**

Illinois hospitals incur significant losses in the provision of care to Medicare patients. This shortfall is part of the community benefit standard and should be included in the definition of community benefits contained in Schedule H. The Schedule H definition of community benefit is inconsistent when it includes the Medicaid shortfall, but not the Medicare shortfall, especially when so many Medicare patients are also at or below 200% of the federal poverty level.

On average, Illinois hospitals only receive 90% of the cost of caring for Medicare patients. This below-cost level of reimbursement cannot be adequately explained by claims of hospital inefficiency because this loss persists year after year and is absorbed by nearly all hospitals year after year. Even the Medicare Payment Advisory Commission (MedPAC) acknowledges that Medicare payment increases do not keep pace with inflation.

There should be some acknowledgement of the hospitals' commitment to the Medicare community reflected on the official Form 990. Providing care to Medicare patients

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relieves the government of having to provide that care directly and the shortfall should be treated no differently than the shortfall from treating other government-sponsored patients.

### **Bad Debt is Community Benefit**

Bad debt represents a significant amount of care provided to patients who most often do not have the ability to pay for their care. Much of bad debt is attributable to patients with low incomes who would likely qualify for charity care if they had applied for it. Financial disclosure *by the patient* is the key to the distinction between charity care and bad debt. Hospitals invest significant efforts to try to assist patients that are in need of financial assistance, but often patients will not identify themselves as in that category. Even though free health care may not get properly categorized as “charity care” in all instances, providing free health care to patients must be considered a community benefit.

Hospital bad debt is different from other types of bad debt because hospitals provide the service first, and then attempt to collect payment. Hospitals also provide medically necessary service to patients with unpaid bills. Few other industries treat “debtors” like this. These distinctions should be recognized by including hospital bad debt in the Schedule H definition of community benefit.

### **Illinois Law Conflicts with the Schedule H Definition of Community Benefit**

The Illinois Community Benefits Act, passed in 2003, includes bad debt, Medicare shortfalls, employee and non-employee volunteer service, and unreimbursed language assistance services in the definition of “community benefits.” These services should be included in the Schedule H definition of community benefits to acknowledge the thoughtful work of Illinois officials and to provide consistency between state and federal definitions.

### **Counting Revenue Received to Support Charity**

Hospitals should have the opportunity to highlight the cost of the charity care *actually provided* to patients rather than just the net cost to the hospital. Many hospitals work hard to raise the additional funds to provide even more charity care than any amount the hospital could provide itself. Worksheet 1, which outlines the method for determining the value of charity care, offsets any revenue received to support charity care to arrive at a determination of “Total Charity Care”. The result is that this offset does not tell the full story of how much actual charity care a hospital provides; it only discloses the *net cost* of charity care. Accordingly, we recommend that the amount of charitable grants and donations elicited by the hospital be listed separately, both to give a true picture of actual charity care provided and to avoid providing hospitals with a disincentive to continue using its resources to obtain grants and donations to support charity care.

### **Other Benefits Not Resulting in Cost**

Much like the charity care benefit described above, there are other community benefits that do not necessarily result in a cost to the hospital. Providing emergency services in

poor urban areas where many uninsured come for their primary care, and other types of intangible benefits, such as a location in a rural area far from any other health care facilities, should be noted somewhere on Schedule H as significant benefits to the community.

Some hospitals, located in high-Medicaid areas, receive additional payment add-ons as a means to ensure continued access to care. However, the add-ons may mean there is little or no unreimbursed Medicaid cost to the hospital. The hospital will have no Medicaid shortfall to report, and the benefit it provides the Medicaid population is also not reportable. Part I of Schedule H should provide some way to acknowledge the value of this intangible benefit, as well as others.

#### **Community Benefits as Percent of Expenses**

Column (f) – “Percent of total expenses”- takes the various lines of community benefits and divides them by the total expenses listed in the core Form 990. This column should be deleted because it is not an appropriate measure for any comparisons across hospitals.

Hospitals vary widely in their corporate structures and each entity provides various services and various community benefits, some of which are not captured on an individual hospital’s Schedule H. For example, a hospital in a wealthy community that belongs to a system, but which completes an individual 990 due to its corporate structure, may use its excess revenue to ensure continued operations of other system hospitals that serve a more indigent population. The sister hospital’s subsidy permits the continued access to hospital care in the poorer community, yet column (f) would not reflect the sister hospital’s subsidy in any percent of its total expenses.

#### **Clarification Issues**

- Hospitals can be very complex organizations, and may include multiple hospitals, skilled nursing facilities, home health agencies, physician practices, and other provider types. Please clarify whether the valuation of community benefits on Schedule H is only to include benefits provided through the medical centers listed in Part V or all benefits provided by the entire corporation.
- The instructions for Part I, Column (a) and (b) state that these columns pertain to the line items listed under “Other Benefits,” yet these columns are in place for the lines listed under Charity Care. Please clarify whether the number of programs and persons served are to be completed for Charity, Medicaid shortfalls and other government programs.
- The instructions for Column (b) state that the number of persons to whom the organization provided *medical* care during the year get reported here. Please clarify whether the numbers of person receiving other types of benefits should be

listed here as well. Additionally, an exact number of persons may be difficult to gather. Please clarify that hospitals may use their best estimate.

**Schedule H, Part II – Billing and Collections**

Part II should be removed from Schedule H because it requests information that is not required under the community benefit standard and it seeks information not maintained in hospital financial records. Specifically:

- Hospital financial statements begin with net patient revenue – not “gross charges less discounts.”
- Part II does not correctly capture a hospital’s breadth of contractual obligations and the final payment of services received. In particular, the column for “uninsured” will misrepresent the amount the uninsured actually pay since, according to the instructions, the definition of “discount” does not include bad debt. In the final analysis, the uninsured, or self-pay, only pay a very small percentage of hospital charges and this fact will not be reflected here.
- Hospital accounting for net revenue requires year end adjustments and estimated allowances due to contractual obligations, third-party audit processes, timing, and uncertainty of a patient’s insured status at the time of service. There are often significant, retroactive adjustments made to contractual allowances due to audits for Medicare, Medicaid and insurance contracts that occur one or more years after the year of service.

In addition to the above, we have the following more specific concerns about Part II:

- Column (c) Definition of Medicaid - In Illinois, patients are able to obtain retroactive coverage for Medicaid, so at the time of admission, they are “uninsured,” but may subsequently obtain Medicaid coverage. These patients are classified as covered by Medicaid.
- Column (e) Definition of Insured – It is unclear whether this category only pertains to health insurance or whether patients covered by auto liability or Workers’ Compensation should be categorized as insured. We would suggest that insured means any person covered for health insurance purposes and would not include property, liability or Workers Compensation claims because it often takes a significant amount of time to fully determine whether the services will be covered under such other insurance vehicles.

- Further, please clarify whether Medicaid-like programs are to be treated as insurance or Medicaid. For example, in Illinois, parents are able to buy-in to the Medicaid program for their children under the AllKids program. The state is also considering another buy-in program for the uninsured called Illinois Covered.
- Column (f) Definition of Uninsured – Hospitals typically do not have a category of uninsured, rather, patients responsible for the payment of their care are termed “self-pay”.
- Line 1 – Gross Charges – Hospital financials, as a requirement of the AICPA, begin with net revenue, and not gross charges.
- Line 2 – Discounts - The title of this line should be changed to something else, such as “contractual allowances,” not discounts. Many uninsured patients, or insured patients with self-pay portions, are unable to meet their financial obligations, resulting in classification as bad debt. Until the patient financial information is known, these obligations are often listed at full charges. Again, the amount of bad debt should somehow be part of the equation, otherwise it may be perceived that the uninsured are paying gross charges, when in fact, they only pay a very small percentage of the charge.
- Even though Part II seeks aggregated information, the amount of discounts negotiated with insurers is proprietary information and should not have to be disclosed. Further, early payment discounts are not contractual allowances as early payments are at the discretion of the patient or payer.
- Line 3 – It appears that line 3 is the difference of line 1 minus line 2. However, this would then require an estimate of contractual allowances for services rendered toward the end of the reporting period. This would be the hospital’s best estimate, but when the actual payment is received, there could be a significantly different result. For example, it may take several years for a Medicare audit to be completed and it would not be until that time that the full Medicare payment is realized. The title of this line should be changed to something such as “net patient revenue.”
- Line 4 – The instructions for this line say that “Fees Collected” is the total amount collected by the organization with respect to the gross charges specified in line 1. There will be charges incurred toward the end of the reporting period which will not be collected until the next year. There are also circumstances in which payment will take place over several years, including cost report settlements. As such, line 4 will not reflect the total payments related to the gross charges in line 1.



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Some hospitals may need to complete as many as ten to fourteen of the fifteen schedules. The administrative burden on hospitals for gathering and reporting the data requested by the redesigned Form 990, and Schedule H in particular, should be assessed prior to implementation.

In addition, hospitals will incur a substantial increase in audit fees due to the necessity of having to get their substantial level of community benefits audited and certified. Many hospitals may not have included an audit fee increase in their budget for 2008.

**Timing of Implementation**

We would suggest a minimum two-year delay for implementing Schedule H. Many small and rural hospitals in Illinois do not have to file a community benefits report at this time. Hospitals not currently collecting and tabulating all the benefits provided to their communities face a time-consuming and complicated task. Many hospitals will need additional time to put such a process in place. In addition, the IRS has indicated that the final instructions, definitions, and worksheets for completion of Part I may not be available until summer, 2008, so it seems unreasonable to expect hospitals to gather, collate, and report data from 2008.

Thank you for the opportunity to comment on our particular concerns with the proposed Schedule H. We will submit additional comments prior to the September 14, 2007 deadline as our review of the Form 990 redesign and other schedules proceeds.

Sincerely,



John Bomher  
Senior Vice President  
Illinois Hospital Association

Cc: American Hospital Association  
Metropolitan Chicago Healthcare Council



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Metropolitan Chicago  
Healthcare Council

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Vice President/Chief Executive Officer  
Resurrection Medical Center

August 14, 2007

Form 990 Redesign,  
Attn: SE:T:EO  
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Washington, DC 20224

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MCHC has serious concerns with the new Schedule H for hospitals, which will be unduly burdensome for many hospitals, requires information that is not necessary to promote compliance with tax-exempt standards, and is duplicative of information from the core Form 990 redesign and several other schedules. In particular, the main concerns with Schedule H include the definition of community benefits, the timing for implementation of this schedule, and the section pertaining to billing and collections.

**Schedule H, Part I – Community Benefits**

**Medicare Shortfalls are Community Benefits**

Metropolitan Chicago hospitals incur significant losses in the provision of care to Medicare patients. This shortfall is part of the community benefit standard and should be included in the definition of community benefits contained in Schedule H. The Schedule H definition of community benefit is inconsistent when it includes the Medicaid shortfall, but not the Medicare shortfall, especially when so many Medicare patients are also at or below 200% of the federal poverty level.

On average, Illinois hospitals only receive 90% of the cost of caring for Medicare patients. This below-cost level of reimbursement cannot be adequately explained by claims of hospital inefficiency because this loss persists year after year and is absorbed by nearly all hospitals year after



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year. Even the Medicare Payment Advisory Commission (MedPAC) acknowledges that Medicare payment increases do not keep pace with inflation.

There should be some acknowledgement of the hospitals' commitment to the Medicare community reflected on the official Form 990. Providing care to Medicare patients relieves the government of having to provide that care directly and the shortfall should be treated no differently than the shortfall from treating other government-sponsored patients.

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Bad debt represents a significant amount of care provided to patients who most often do not have the ability to pay for their care. Much of bad debt is attributable to patients with low incomes who would likely qualify for charity care if they had applied for it. Financial disclosure *by the patient* is the key to the distinction between charity care and bad debt. Hospitals invest significant efforts to try to assist patients that are in need of financial assistance, but often patients will not identify themselves as in that category. Even though free health care may not get properly categorized as "charity care" in all instances, providing free health care to patients must be considered a community benefit.

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In addition to the above, we have the following more specific concerns about Part II:

- Column (c) Definition of Medicaid - In Illinois, patients are able to obtain retro-active coverage for Medicaid, so at the time of admission, they are "uninsured," but may subsequently obtain Medicaid coverage. These patients are classified as covered by Medicaid.
- Column (e) Definition of Insured – It is unclear whether this category only pertains to health insurance or whether patients covered by auto liability or Workers' Compensation should be categorized as insured. We would suggest that insured means any person covered for health insurance purposes and would not include property, liability or Workers Compensation claims because it often takes a significant amount of time to fully determine whether the services will be covered under such other insurance vehicles.
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early payment discounts are not contractual allowances as early payments are at the discretion of the patient or payer.

- Line 3 – It appears that line 3 is the difference of line 1 minus line 2. However, this would then require an estimate of contractual allowances for services rendered toward the end of the reporting period. This would be the hospital's best estimate, but when the actual payment is received, there could be a significantly different result. For example, it may take several years for a Medicare audit to be completed and it would not be until that time that the full Medicare payment is realized. The title of this line should be changed to something such as "net patient revenue."
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#### **Assessing the Burden of the Form 990 Redesign and Schedule H**

Some hospitals may need to complete as many as ten to fourteen of the fifteen schedules. The administrative burden on hospitals for gathering and reporting the data requested by the redesigned Form 990, and Schedule H in particular, should be assessed prior to implementation.

In addition, hospitals will incur a substantial increase in audit fees due to the necessity of having to get their substantial level of community benefits audited and certified. Many hospitals may not have included an audit fee increase in their budget for 2008.

#### **Timing of Implementation**

We would suggest a minimum two-year delay for implementing Schedule H. Many small and rural hospitals in Illinois do not have to file a community benefits report at this time. Hospitals not currently collecting and tabulating all the benefits provided to their communities face a time-consuming and complicated task. Many hospitals will need additional time to put such a process in place. In addition, the IRS has indicated that the final instructions, definitions, and worksheets for completion of Part I may not be available until summer, 2008, so it seems unreasonable to expect hospitals to gather, collate, and report data from 2008.



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Thank you for the opportunity to comment on our particular concerns with the proposed Schedule H. We will submit additional comments prior to the September 14, 2007 deadline as our review of the Form 990 redesign and other schedules proceeds.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence U. Haspel, D.O." The signature is written in black ink and is positioned above the typed name.

Lawrence U. Haspel, D.O., FACC  
Senior Vice President  
Metropolitan Chicago Healthcare Council

cc: American Hospital Association



Richard F. Larkin, CPA  
7101 Wisconsin Ave. # 800  
Bethesda, Md. 20814

15 August 2007

Form 990 Redesign  
ATTN: SE:T:EO  
1111 Constitution Ave., N.W.  
Washington, D.C. 20224

Dear Sirs:

Proposed Revisions to Part II of Form 990

Regarding the proposed new requirement to include the residence address (city/state) of board members and key employees on this public form, I believe this will have very unfortunate results for the nonprofit sector. Many worthy volunteers will refuse to serve on boards, and staff will not take jobs with nonprofit organizations, if home information becomes public. (Yes, I realize that only the city and state are required, but that is still a privacy issue, as it will not be difficult to find the street address from property records, telephone books, etc.)

Currently even the several organizations on whose boards and committees I sit do not know what my home address is; I use my office address. However after I retire, that option will vanish (I will get a post office box for receiving mail, but that is clearly not my residence). Many volunteers do not have an office address, and organization staff have only the organization's own office address.

This problem will be most acute for organizations with activities that are considered 'controversial' by large numbers of people; consider for example, Planned Parenthood, National Rifle Association, ACLU, PETA, universities with animal research laboratories, etc., to name just a very few. And board members of a society of stamp or coin collectors certainly do not want it known where their collections are kept. But I suggest that practically every organization does at least some things that at least some people don't like (e.g., the school that did not admit your child). Thus people simply will not serve, and the sector will be the poorer for this. (Or people will lie to organizations about their address.) And those who do still serve and do not lie may find themselves *and their families* the target of harassment or even come to personal harm. (It is, of course, sad that this kind of risk exists, but we have seen that it does. And, yes, the odds are small, but why should I accept any odds above zero?)

The IRS appears to believe that residence information is necessary in case you need to contact someone. But that does not hold up. You would have a much easier time finding me through the organization's office than through knowing only my home city and state. If you can find me with that information, then so can every kook out there. There are three persons with my full name listed in my town in the county telephone book; I would be putting the other two at risk also.

I am telling you in very strong terms that this proposed requirement is dangerous, unnecessary, and very harmful to nonprofit organizations. Please retain the present use of the organization's address for all board and staff.

Yours very truly,



Richard Larkin



Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, DC 20224

Re: Redesigned Draft Form 990

To Whom It May Concern:

I am writing today to in response to the Internal Revenue Service's request for comments regarding the draft revised Form 990. My name is Alan Kelly and I am Vice President and General Counsel for Scottsdale Healthcare Corp. ("SHC").

SHC is a three-campus health system located in Scottsdale Arizona. SHC was founded in 1962 as a tax-exempt, non-profit healthcare provider, led by an independent, volunteer board of local community leaders. SHC's three hospital campuses are known as the Osborn, Shea and Thompson Peak campuses.

The Scottsdale Healthcare Osborn campus is SHC's original hospital facility. The Osborn campus has been expanded numerous times since 1962. Today, it is a 337-bed hospital offering the only Level 1 Trauma Center for the eastern portion of the greater Phoenix metropolitan area and serves a population of approximately two and a half million people. The Osborn campus recently expanded its emergency services and conducts the first community-based military trauma training program in the United States. Osborn's emergency department annually provides care for over 51,000 patient visits with over 3,200 trauma cases.

Scottsdale Healthcare Shea is SHC's second hospital facility. The Shea campus was opened in 1984 and is a 405-bed hospital. Also located on the Shea campus is the Virginia G. Piper Cancer Center ("Cancer Center"). The Cancer Center combines the talents of community oncologists, faculty from the University of Arizona, and genomic researchers in one location to serve our cancer patients. Through these collaborations, we are able to offer Phase I and Phase II Clinical Trials of new cancer therapies. The Shea campus' emergency department provides care for over 50,000 emergency department patient visits per year.

SHC's third hospital, Scottsdale Healthcare Thompson Peak, will open in late 2007. Now under construction, the hospital will initially open with 60 beds, expanding to 184 beds with ten dedicated to emergency care to meet the needs of Scottsdale's growing community.

In reviewing the draft Form 990, we have identified several major concerns with the proposed new form and particularly, Schedule H, as follows:

### **Part I: Community Benefit Report**

A. Medicare Shortfall

Of greatest concern to SHC is the failure to include Medicare shortfalls and at least a portion of bad debt in the draft Form 990's current definition of charity care and community benefits. Arizona hospitals subsidize millions in annual losses from the care of Medicare patients. On average, Arizona hospitals are reimbursed only 89% of the cost of care of Medicare patients.

Arizona hospitals have consistently absorbed this below-cost level of reimbursement for years which is, in itself, reflective of their commitment to the community. In addition, providing care to Medicare patients relieves the federal government of the burden of providing that care directly. Therefore, the Medicare shortfall should be included as a community benefit on the draft Form 990 just as the Medicaid shortfall is included as a community benefit.

B. Bad Debt

Accurate and timely patient disclosure of finances is the key to the distinction between charity care and bad debt. A significant amount of bad debt would likely qualify as charity care if the patient's true financial circumstances were known to the hospital. In addition, hospital bad debt is different from other industries in that hospitals provide care first and then seek to collect payment. Therefore, a portion of hospital's bad debt should be included in the definition of charity care.

C. Percentage Calculations

Finally, the proposed Schedule H asks for a calculation of each category of community benefit as a percentage of the hospital's total expenses. The definitions must be clarified to ensure that the community benefits reported here reflect the same entities reporting total expenses in the core form, so that the percentage of expenses is comparable.

### **Part II: Billing and Collections**

A. Definitions

SHC is concerned about the definitions contained in Section A. Since bad debt is not included in the definition of charity care or community benefit, the amount of net payment expected from the uninsured will be perceived as much higher than for other categories of patients. This reporting structure does not reflect the well-known fact that hospitals only collect a very small percentage of charges from the uninsured.

B. Calculation of Billing Information

Due to the timing and uncertainty of patients' insured status at the time of service, SHC often makes retroactive adjustments. Retroactive adjustments are made due to a change in the patient's financial status, the receipt of new information regarding the patient's financial status, audits for Medicare and Medicaid and end of year settlements under insurance contracts that occur one or more years after the year of service. As a result, these numbers will not tie back to financial statements and the revenue collected will not correspond to the revenue that was expected as stated in this section under the current definitions.

C. Terminology

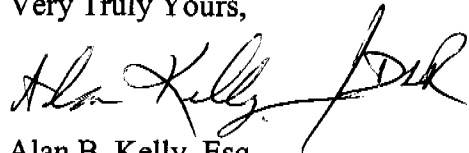
The titles of the lines in Part II need to be revised to reflect the industry terminology. Specifically, referring to the lower reimbursement rates from Medicare and Medicaid as "discounts" is improper. In addition, early payment incentives should not be included in this line as they are not contractual discounts, but rather, a payor's choice to pay a bill quickly and in full. Finally, the amount of commercial contractual allowances should not be disclosed on a public form because this is proprietary information that, once publicly known, will disadvantage hospitals in their negotiations with commercial payors.

Also, SHC recommends that the definition of "insured" be clarified to state whether this definition pertains only to health insurance or whether it also includes those covered by insurance products other than health insurance, such as workers' compensation and auto liability insurance.

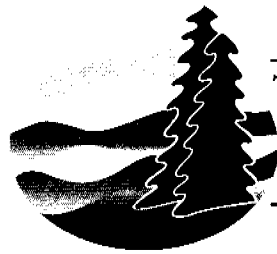
**Conclusion**

On behalf of SHC, thank you for your careful consideration of SHC's concerns related to the draft Form 990. If you have any questions regarding any of the concerns expressed in this letter, please do not hesitate to contact me directly at (480) 882-4007 or at [akelly@shc.org](mailto:akelly@shc.org).

Very Truly Yours,



Alan B. Kelly, Esq.  
Vice President & General Counsel



TRANSYLVANIA  
COMMUNITY  
HOSPITAL

*Right Choice. Right Here.*

August 14, 2007

Internal Revenue Service  
Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, D.C. 20224

RE: Comments on Schedule H

On behalf of Transylvania Community Hospital, thank you for the opportunity to comment on the draft Schedule H to Form 990. We appreciate the Service's openness to comments and the work done already to create a workable platform for reporting hospitals' community benefits.

Our initial reactions to Schedule H include concerns that the transition period is far too short, that the full value of our hospital's community benefit could not be calculated using the form and that the Service is requesting information unrelated to community benefit that will have no value to the public or will lead to misinterpretation by the public.

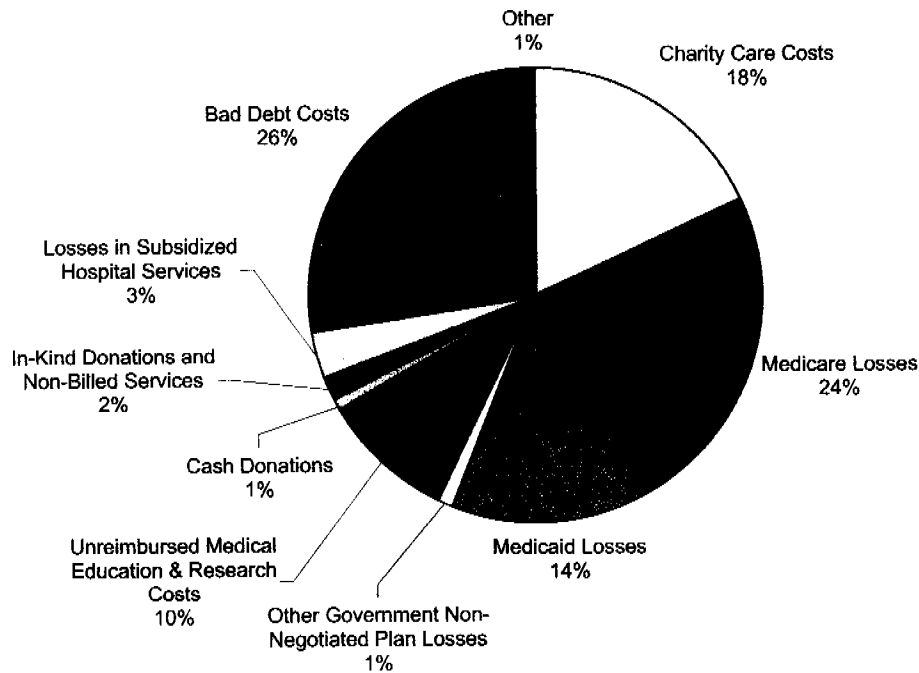
In addition, we have the following concerns:

- Medicare losses should be explicitly documented,
- Proposed bad debt treatment causes overstatement of some community benefit items, and
- A single costing methodology is preferred.

These issues are discussed in depth below.

Issue: **Medicare Losses Should be Explicitly Documented**

It is unclear from the form whether Medicare losses are to be lumped into "Other government programs" or omitted. It should be listed as its own category. Medicare is a public program of non-negotiated reimbursement rates covering a large population in the US. Through its revenue ruling on community benefit, the IRS has recognized that providing hospital care for persons covered by public programs such as Medicare is a community benefit (Rev. Ruling 69-545; Legal Issues related to Tax Exemption and Community Benefit, National Health Lawyers Association, 1996). Our state collects information on Medicare losses and distinctly recognizes those losses as a community benefit since 2001. Losses on Medicare are an important part of a hospital's community benefits. Medicare accounts for 43% of all charges in North Carolina hospitals. In FY06 for North Carolina these losses represented the second highest category of community benefits, accounting for 24% of all Community Benefits.



In North Carolina, the vast majority (79%) of hospitals do not receive enough Medicare reimbursement to cover costs of care. While North Carolina hospitals' Medicare reimbursement averages 92% of costs, the same as the national average, its high volume makes for high dollar losses (over half a billion dollars for FY06). Without these losses, a community benefits report is dramatically understated and the national problem of Medicare losses masked.

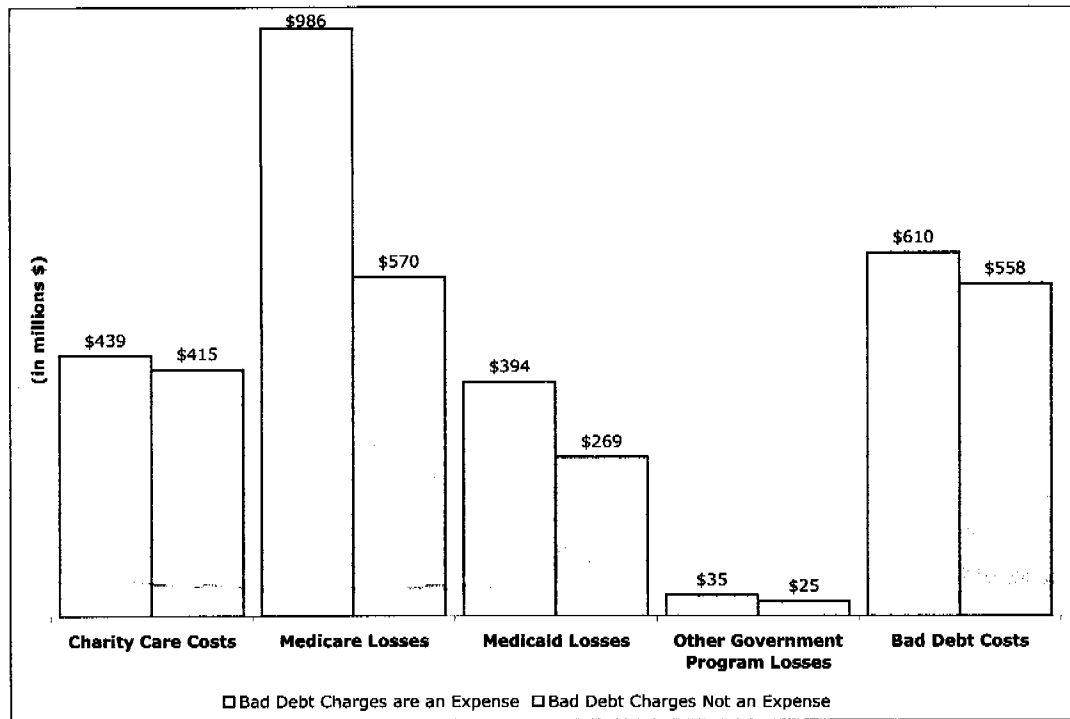
**Recommended revision:** Medicare losses should be explicitly listed in Part I of Schedule H. Listing those losses will make Schedule H consistent with the law that defines a tax-exempt hospital.

**Issue:** **Proposed Bad Debt Treatment Causes Overstatement of Some Community Benefit Items**

A substantial portion of bad debt is pending charity care. Unlike bad debt in other industries, hospital bad debt is complicated by the fact that hospitals follow their mission to the community and treat every patient that comes through their emergency department, regardless of ability to pay. Patients who have outstanding bills are not turned away, unlike other industries. Bad debt is further complicated by the auditing industry's standards on reporting charity care. Many patients cannot or do not provide the necessary, extensive documentation required to be deemed charity care by auditors. As a result, roughly 40% of bad debt is pending charity care. The majority of bad debt is from uninsured patients; in North Carolina two-thirds is from uninsured or patients with Medicare, Medicaid, or other public programs. Hospitals deserve

the opportunity to tell the whole story of the impact of the uninsured on a hospital community benefit report. Currently this story is hidden in Schedule H.

As Schedule H is currently written, the size of a facility's total bad debt charges impacts numbers reported in Part I. The story is hidden in every cost line item that is based on Worksheet 2's ratio of cost to charges (RCC) calculation. It is an accepted industry practice to use the ratio of a hospital's total costs to its total charges to estimate costs for a sub-population of the facility's patients. In Worksheet 1, for example the RCC used charity care charges to estimate the hospital's costs of treating Charity care patients. Where costing methodologies differ is in what counts in the RCC's total costs. Worksheet 2 instructs hospitals to include all hospital costs, including bad debt charges. This leads to bad debt charges being included in estimates of costs. In North Carolina, Medicaid accounts for 15% of charges, so hospitals using Worksheet 2 would produce an estimate of Medicaid costs that includes 15% of total bad debt **charges**. Clearly, this is misleading. The Financial Accounting Standards Board (FASB) accounting standards count bad debt charges as an operating expense. Neither the Governmental Accounting Standards Board (GASB) accounting standards nor the Form 990, Part V, count them. Approximately one-half the North Carolina hospitals follow GASB. Since GASB is the official government accounting standards, the IRS should consider adopting that standard. It is important to note that GASB standards will lower estimates of every loss in Part I that uses Worksheet 2. The North Carolina Hospital Association has done extensive research on the impact of bad debt on RCCs and subsequently on community benefit items. The chart from that report has been updated below with FY06 totals for North Carolina.



**Including all bad debt charges in the ratio of cost to charges results in a doubling of Medicare loss estimates and Medicaid loss estimates inflated by 50%.** This artificial increase in loss estimates is driven entirely by the inclusion of charges for bad debt in the costing methodology.

Total expenses should not be composed of charges, which are the prices hospitals set, but should be based only on the expenses related to the care of patients. At the same time, the story of the whole community, including the uninsured and pending charity care cases, must be included in each hospital's community benefits report.

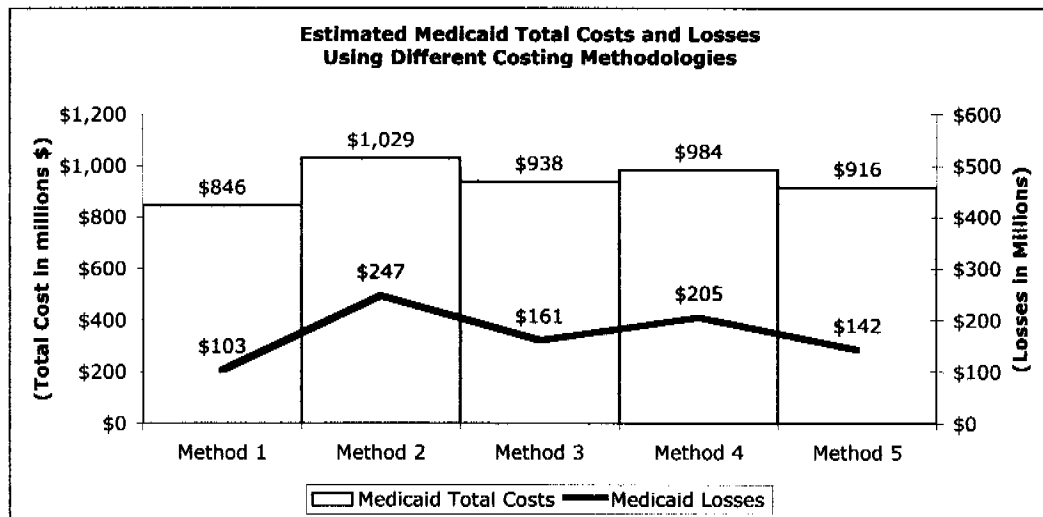
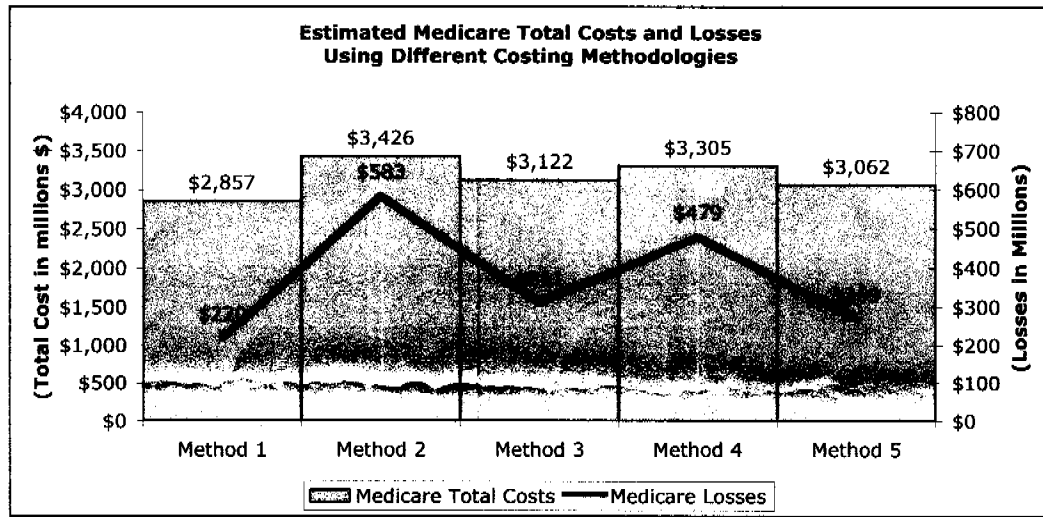
**Recommended revision:** List costs of care from bad debt on the community benefit report and remove bad debt charges from Worksheet 2's ratio of cost to charges calculation. In this way, the community benefit related to bad debt is not passed through to other community benefit items and the benefit for these mostly uninsured, community members is extracted and listed on the report. Because of the unique nature of bad debt, we recommend it be included in the "Other Benefits" section of Part I and that, like charity care, it be reported at cost, using the same methodology. The new category should be labeled to indicate that it includes pending charity care patients that cannot be separated from bad debt: "Bad Debt and Pending Charity Care Costs."



Issue:

### A Single Costing Methodology is Preferred

The North Carolina Hospital Association has done extensive research on the impact of costing methodologies on community benefit items. Small changes in costing methodologies can dramatically affect estimates of government program losses.



**Differences in costing methodologies can produce a 20% difference in total costs estimates and can produce loss estimates that vary by as much as 165%. In effect, choosing a different method to calculate costs can more than double estimates of losses.**

At best, allowing multiple costing methodologies would produce reports that cannot be compared fairly across hospitals. At worst, it will punish hospitals without the resources to review the differences in the methodologies.

Recommended revision:

Given the current pressure on reporting community benefits, it is vitally important that this report produce comparable statistics. To do this, one costing methodology should be chosen so that the playing field is level. The

current worksheets give hospitals the option between a cost accounting system and Worksheet 2's Ratio of Cost to Charges. Most hospitals do not have the financial resources to have a cost accounting system and the personnel to produce an extensive costing report. The ratio of costs-to-charges in Worksheet 2 is Method 4 above. We recommend that estimates should be based on the formula for the ratio of cost-to-charges (RCC) for Method 5 above:

$$\frac{\text{Total expenses (not including bad debt)}}{\text{(Total charges + Other operating revenue)}}$$

Method 5 has the following advantages:

- Allows for consistency and comparable statistics nationwide.
- Unlike CMS; Medicare Cost Report's RCC, it includes all services provided in the hospital and does not exclude necessary expenses, such as professional liability insurance. The Medicare Cost Report's RCC is higher than other RCCs for some hospitals and lower for others. This lack of consistency is driven by their list of excluded services, charges, and costs and therefore, it doesn't represent the activities of the whole hospital.
- Does not tie Community Benefit amounts to the politically motivated CMS Medicare Cost Reports for allowable services and expenses. By removing this tie, numbers can be trended and will not reflect the definitional changes that occur when CMS changes its cost report definitions.
- Has been used by the American Hospital Association for years and is their preferred formula for Community Benefits. This RCC has a long track record in the United States and is used in many publications about hospital costs.
- Does not hide bad debt charges and other non-patient care expenses in the report. (See previous comment).
- Can be calculated from readily available, audited, financial data in every hospital. Having an RCC that is easily calculated reduces unnecessary burdens on hospitals when completing filing requirements.
- Eliminates non-patient care expenses with an estimate of other operating expenses (other operating revenues). On a technical note, Worksheet 2 currently does this by subtracting this from the numerator. Adding other operating revenues to the denominator of the ratio produces very similar results to subtracting from the numerator. It is not our point that one of these two approaches is significantly better than the other.

We urge you to work with the hospital field to address these concerns and set a more achievable implementation date for Schedule H.

Sincerely,



Robert J. Bednarek  
President/CEO



August 15, 2007

200 Lothrop Street  
Pittsburgh, PA 15213-2582

Internal Revenue Service  
Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, DC 20224

Dear Sir or Madam:

This letter responds to the Internal Revenue Service's request for comments and suggestions on the discussion draft of the redesigned Form 990, "Return of Organization Exempt from Income Tax." We are writing in our capacities as Director of Tax and Chief Financial Officer of UPMC, an academic medical center system based in Western Pennsylvania. Our comments address whether the IRS should continue to support group returns.

By way of background, UPMC is a federally tax-exempt Pennsylvania nonprofit corporation and parent of a large integrated healthcare delivery system comprised of 13 hospitals and dozens of other healthcare provider organizations with a system-wide mission to improve the health of the residents of the communities in which it operates. In 2006, UPMC applied for a group ruling determination for its affiliated subordinate tax-exempt organizations. The IRS subsequently issued a favorable determination letter, and UPMC filed its first group return on behalf of 35 tax-exempt subsidiaries for the fiscal tax year ended June 30, 2006.

UPMC has long recognized that Form 990 is the primary tool used by the public in assessing an organization's financial results and charitable accomplishments. As such, all of the tax-exempt affiliates within the UPMC system are committed to preparing comprehensive, accurate and transparent information returns that describe how charitable resources are used to further the organization's charitable mission.

Prior to receiving the group ruling, each tax-exempt subsidiary of UPMC filed a separate Form 990, which made it difficult for members of the public to gain an understanding of the performance of the system as a whole. In an article published by the Pittsburgh Post-Gazette on May 18, 2006, the newspaper noted,

To get a sense of the complexity of the University of Pittsburgh Medical Center, just page through the stack of filings the health system makes every year with the Internal Revenue Service for the 45 nonprofit entities it controls....

Internal Revenue Service

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The IRS forms provide an unwieldy view of UPMC's operations compared with a for-profit company's consolidated financial statements, which are subject to more stringent regulations. The differences between the two explains why it can be difficult to determine the bottom line of the finances of large, nonprofit hospital companies.

"By looking at nearly 50 individual [forms], you really get no perspective on UPMC as a system," said Robert DeMichie, the system's chief financial officer. "We're a single organization, but you really can't see that by the way things are filed today."

In 2006, our organization determined that filing a group return would significantly improve transparency and accuracy. As noted in our request for recognition of group exemption:

UPMC believes recognition of exemption on a group basis and the ability to file a group tax return for the designated subordinate organizations will... improve its ability to comply with the public disclosure regulations, allow the healthcare system to provide more comprehensive information to both the Internal Revenue Service and to the public, and to more accurately reflect the relationship among the tax-exempt organizations within the healthcare system.

Our experience of filing a group return for fiscal year 2006 confirmed the benefits of this approach. On the group return, UPMC was able to provide the public with a better explanation of the overall activities and financial results of its tax-exempt subsidiaries, rather than making disclosures on dozens of individual informational returns as in the past. Members of the public now have a source for a detailed explanation of the charitable activities of the system. UPMC also benefits from the ability to present a consistent message to the community.

Similarly, the group return provides greater context for the level of certain expenditures that benefit the healthcare system as a whole, rather than just individual subsidiaries. For instance, the level of compensation paid to an executive of the system is more meaningful when reported in the context of the consolidated financial position of the entire system.

In addition, the group return results in the elimination of intercompany transactions which can produce a distorting effect when presented on a separate company basis. In the words of Independent Sector in comments made to the IRS in 2003:

[S]eparate Form 990's include material inter-company income, expenses, assets and liabilities that distort the overall operations and financial position of the organization and make it difficult for donors and others to use the information return data. The distortion of organizational data is exacerbated when oversight organizations evaluate charities based solely on statistical analysis of Form 990's. Using raw unconsolidated data in cases where the related entities perform separate but complementary functions can lead to highly erroneous conclusions about organizational performance. Allowing... charities to file a combined Form 990 would provide meaningful financial information for the entity as a whole; and preclude the public from making erroneous judgments based upon fragmented information...

Filing on a group basis also facilitates public disclosure. UPMC has posted the Forms 990 filed by the parent and the subordinate group on its website, which allows immediate public access to those documents. Subsidiaries that receive requests for public disclosure copies of information returns are able to quickly refer individuals to the website for immediate access.

Finally, the group return process also results in cost savings to UPMC. Our organization contracts with a tax software vendor that charges UPMC based on the number of returns filed. By consolidating the 35 tax-exempt subordinates into a single Form 990, annual cost savings are realized.

### **Recommendations**

As you know, group returns are currently permitted under Section 1.6033-2(d) of the Treasury Regulations. Consequently, this existing regulation would need to be modified or eliminated for the IRS to preclude the filing of group returns going forward. Given the benefits of group returns in terms of transparency, accuracy, public disclosure and cost, we would strongly recommend that the IRS and Treasury Department consider amending, rather than eliminating, the current regulations to address any perceived issues or deficiencies. For instance, we understand that the aggregation of information within a group return can result in the reporting of less detail than would be available in separate returns. To the extent the IRS requires more detail to exercise its oversight responsibilities, we suggest that the regulations be modified to require the requisite level of detail.

Furthermore, we suggest that regulations be amended to allow parent organizations to participate in the group return filed by their subsidiaries, assuming all other relevant requirements are satisfied. This change would promote the interests of transparency

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and accuracy through further consolidation of information about finances and charitable programs and eliminate the potential inaccuracies caused by intercompany transactions.

As you know, under current law, parent organizations are required to file separate returns, though they may elect to include certain information (e.g., compensation of officers, directors, trustees and key employees) within the group return rather than the parent return. The existing process can result in confusion as members of the public may not understand where information is reported and why the normal separate reporting regime is not followed. Amending the regulation to permit the parent to participate in the group return would eliminate this potential source of confusion.

This suggestion is consistent with a recommendation made by the Panel on the Nonprofit Sector in its final report to Congress in June of 2005. Among the Panel's recommendations to the Internal Revenue Service is the following:

A parent organization with affiliates subject to its supervision and control and covered by the same group exemption should be given the option to file consolidated returns, provided that all other criteria for filing a group return are met.

Likewise, Independent Sector made a similar recommendation in its comments to the IRS in 2002:

We recommend that the Form 990 provide a parent organization the option of filing a combined Form 990 for itself and all affiliates that are subject to its supervision and control, and that meet the current criteria for filing a group return.

## **Conclusion**

UPMC strongly urges the IRS to continue to support the ability of tax-exempt organizations to file Form 990 on a group basis.

Among the guiding principles listed by the Service in its "Background Paper on the Redesigned Draft Form 990" are enhancing transparency and promoting compliance through accurate reporting. UPMC has recent firsthand experience with both filing on a separate entity and on a group return basis. From our perspective, the latter approach permits the consolidated entities to present financial and charitable activity information in a more transparent and accurate manner. In the words of Independent Sector, group returns eliminate the risk of "highly erroneous conclusions" resulting from intercompany transactions that are reported on a separate company basis.

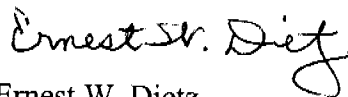
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Consequently, we believe that the group return process is beneficial to both UPMC and to the public.

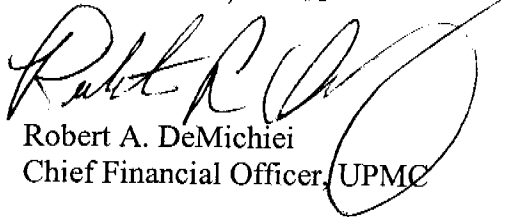
Finally, we join Independent Sector and the Panel on the Nonprofit Sector in recommending that the group return process be further improved by allowing parent organizations to join in group return filings.

If you have any questions, please do not hesitate to contact Ernest Dietz at (412) 647-5824.

Very truly yours,



Ernest W. Dietz  
Director of Tax, UPMC



Robert A. DeMichie  
Chief Financial Officer, UPMC



**Salem Community  
HOSPITAL**

August 16, 2007

Internal Revenue Service  
Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, D.C. 20224

***RE: COMMENTS ON THE PROPOSED SCHEDULE H AND FORM 990***

We appreciate the opportunity to provide comments on the proposed changes to the Form 990 and the proposed Schedule H for Hospitals. Salem Community Hospital is a 501(c)(3) corporation providing inpatient and outpatient medical services in a small town/rural location in Northeastern Ohio.

The new Hospital Schedule H should allow our hospital to report the great diversity of community benefits we provide, and it should not redefine community benefit in a manner that permits others to determine what programs and services are most appropriate for our communities.

Specifically, we have concerns in the following areas:

- **First, is the "Medicare Shortfall."** In our hospital, Medicare payments do not cover the actual cost of care to the patients. I can understand that the Form 990 should not get into the differences between hospital charges (which can vary widely) and Medicare payments. However, the difference between the cost of care and what Medicare pays must be made up from other payers or absorbed by the hospital. This shortfall can be a disincentive for for-profit oriented niche providers to take certain types of Medicare patients. Unlike those niche providers, as the only hospital within an 18 mile radius, we take all comers and the shortfall we absorb from Medicare patients is part of our commitment to the community, just as much as is our commitment to have an Emergency Department open 24 hours per day. If the Medicaid shortfall (Part I, line 2) is an acceptable number to include, why would the Medicare shortfall be excluded?
- **Second, under Community Benefit, we are concerned about the exclusion of Bad Debts.** We understand the Accounting profession's definition of Bad Debts, but the reality in our community is that often the difference between an account being written off to Bad Debt versus an account being written off to Charity is the willingness of the patient to cooperate in providing eligibility information. Please realize that there are some patients whose financial condition, mental condition, or substance abuse condition leads to an "I don't care" attitude when it comes to providing information. We may very well know that they have no means to pay, they may not meet eligibility for Medicaid (or will not cooperate enough to apply) and so, in the end, they may be classified as "Bad Debt" when, had they provided basic information, they would be listed as "Charity."



Certain aspects of the Community Benefit Standard are objective and certain aspects are subjective. When it comes to both Medicare Shortfall and Bad Debt, it seems that the Form 990 could collect this information and make it available to the public, reporting it as a separate line item, if desired. Each user or reader of the Form 990 could make their own judgment about whether the numbers are pertinent. If you collect the information, the data would be available. If you do not collect the information, it will always be a bone of contention between the government and the not-for-profit hospital industry.

- **Third, we have a concern about the definition of Community Benefit activities.** As the largest employer in a rural county, Salem Community Hospital is called upon to provide community-based health services and community-building activities with the goal of improving the community's health status. Community-based health screenings and education, disaster preparedness, school health initiatives, community disease surveillance, environmental waste reduction, advocacy for community health improvement and workforce enhancement are all examples of the valuable and diverse community benefits the Hospital provides to meet our community's needs. It is our request that these activities be reported and categorized in an appropriate manner to reflect our response to these locally determined needs.
- **We are also concerned with the terminology used in the table in Schedule H, Part II, Section A – Billing Information.** The proposed chart on Schedule H, Part II relating to billing should be eliminated. It has no bearing on determining whether a hospital is meeting the community benefit standard, and it should not be used to create new reporting standards. If the table is retained, it needs to be substantially reworked to use standard industry language.

While we would prefer that the table be eliminated, we offer the following suggestions, in the event it remains:

Regarding, Column (a) of the table, there is standardized language in the industry that "Gross Charges" represents the sum of all charges, "Deductions from Revenue" represents the adjustments made for Medicare, Medicaid, negotiated insurance contracts and charity care, and "Net Revenue" represents the difference between the two. The terms "Discounts", "Net expected", and "Fees collected" are not industry standard and will only promote confusion. Based on our earlier comment, this may be an appropriate place to have a line for "Bad Debts". The line "Fees Collected" implies to us that you are seeking actual cash collected during the reporting period. Since we use accrual accounting, this would be an extraordinarily difficult item to capture by payer for a given fiscal year. This line should be deleted.

In the same table, we are concerned about the definition of the various columns. Does column (b) "Medicare" include Medicare HMOs? Does column (c) "Medicaid" include Medicaid HMOs? We believe that the answer to both questions should be yes. In any case, the characterization of the HMO revenue should be explicit in the instructions.

Industry standard language for columns (e) and (f) would be "Commercial Insureds" and "Self Pay", respectively.

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August 16, 2007

The wording of Part II, Section A, line 5 is confusing: Are you asking for the accounting calculation of the Provision for Bad Debts as it would be shown on the financial statements? Or, are you asking how a specific account is determined to be a Bad Debt? This question needs to be clarified. If it is the former, the industry standard term "Provision for Bad Debt" needs to be used.

**Regarding the Form 990, in general:**

**Further thought needs to be given to defining the reporting requirements as they relate to compensation for physicians employed by Hospitals to provide direct patient care services.** This relates to Schedule J, lines 4 and 5. Typically, employed physician contracts are incentive based reflecting performance against financial or Relative Value Unit (RVU) benchmarks. Productivity based compensation is essential to making these contracts work. The IRS should explicitly exclude employment for physicians contracted to provide direct patient care services from the need to report under these questions regarding "revenue sharing" arrangements.

**We support the proposed move to W-2 based reporting of compensation.** As a hospital with a June 30 year end, reconciling compensation to June 30 is always problematic. This change would simplify the completion of the form.

**We are encouraged that the IRS is sensitive to the need to eliminate the possibility of double reporting of nonqualified deferred compensation amounts.** The forms need to clearly identify whether the deferred compensation amount is reported when granted or when vested. If it is reported when granted, it should make it clear that the amount is not vested until a future time period.

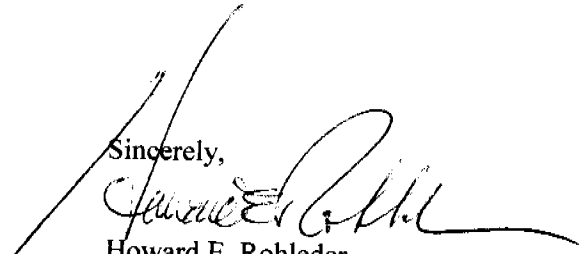
**We are concerned that salary thresholds for reporting are not indexed for inflation.** It has been many years since the current Form 990 was revised and it likely will be many years before the new form is revised again. The old Form 990 set a \$50,000 standard for reporting certain wages. The new form proposes a \$100,000 standard for reporting. Indexing salary thresholds for inflation will help keep the reporting requirements relevant over time.

**We are concerned about the implementation timetable proposed.** Implementation should be delayed until 2010 to accommodate the delay the IRS anticipates in finalizing the forms and issuing instructions, as well as the time required for us to adjust or create systems to capture the required financial information.

We recognize that there are other concerns about Schedule H and the Form 990 and many other schedules. We urge you to work with the hospital community to identify and resolve those issues before asking us to file a new Form 990 or any of its schedules.

Thank you for the opportunity to comment.

Sincerely,



Howard E. Rohleder  
President/CEO

August 17, 2007

Internal Revenue Service  
Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, D. C. 20224

**RE: COMMENTS ON SCHEDULE H**

As President and Chief Executive Officer of Canton-Potsdam Hospital I am writing in response to the Internal Revenue Service's request for early comment on the new draft Schedule H to Form 990 being contemplated.

Canton-Potsdam Hospital provides many diverse benefits for the communities we serve and the new Hospital Schedule H is not designed to allow us to report these services. We do not believe Schedule H should redefine community benefit in a manner that permits others to determine what programs and services are most appropriate for our communities. We have a long tradition of providing programs and services to the people in our service area. In 2006 Canton-Potsdam Hospital's community outreach included: Attending 8 health fairs, where we spoke with over 900 people; 7 community health presentations to business groups, senior citizens groups and the Retired Teacher's Association; 3 skin cancer screenings, attended by 103 people; 10 "First Thursday" Community Health Programs, reaching 134 people; 5 women's health programs, attended by 98 people.

Specific concerns Canton-Potsdam Hospital has regarding Schedule H are:

- **The filing deadlines are not practical and should be extended.** Although we are committed to transparency, the burden of reconfiguring financial and data record-keeping capturing systems in time for the substantial amount of data required by January 1, 2008 is a daunting task. In fact, the task can not be accomplished because the instructions, definitions and worksheets required to collect the data are not expected to be finalized until mid-2008. Requiring hospitals to overhaul financial data and record keeping systems before the definitions, line item instructions and worksheets for making calculations required for Schedule H is costly and disruptive

- **The full value of the hospital benefit community is not included in Schedule H.** Medicare underpayments are a community benefit. Schedule H allows hospitals to report

and receive community benefit credit for Medicaid and other government program underpayments. We believe Medicare underpayments should be included. The full cost of serving our community – including the cost of serving patients who are not able to pay their bill (patient bad debt) also needs to be recognized and counted on Schedule H as a community benefit.

• **IRS is requesting information that is unrelated to community benefit.** We believe the chart related to patient billing should be eliminated because it has no bearing on determining whether a hospital is meeting community benefit standard. This chart should not be used to create new reporting standards.

We respectfully request that the IRS delay implementation of Schedule H changes until 2010 to accommodate the delay the IRS anticipates in issuing instructions, as well as the need to adjust or create systems to capture the required financial information.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Acker', written in a cursive style.

David B. Acker  
President and Chief Executive Officer

# Mary Free Bed

Rehabilitation Hospital 800.528.8989 • www.maryfreebed.com • 235 Wealthy SE • Grand Rapids, MI 49503-5299

August 20, 2007

Internal Revenue Service  
Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, D.C. 20224

***RE: COMMENTS ON SCHEDULE H, FORM 990***

On behalf of Mary Free Bed Rehabilitation Hospital, we thank you for the opportunity to comment on the redesigned Form 990 including the new draft Schedule H.

We appreciate the efforts of the IRS in working toward better reporting for non-profit institutions through Form 990. We do have some concerns with the proposed new Schedule H form:

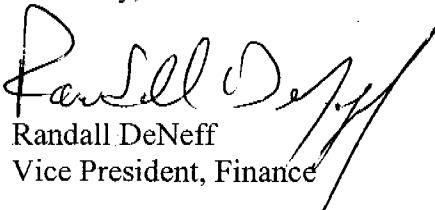
- The implementation time frame is too quick and should be extended. We will need more time to adjust or redefine our data collection systems to capture the required information.
- The form should allow underpayments from Medicare (in addition to Medicaid) to be counted as a community benefit.
- The form should allow the cost of bad debts to be included as a community benefit.
- Part II relating to billing should be eliminated since it doesn't factor into community benefits.

We need to be careful and report information that is useful and understandable to our communities.

We recognize that there are other concerns about Schedule H, Form 990 and many other schedules. We urge you to work with the hospital community to identify and resolve those issues before asking us to file a new Form 990 or any of its schedules.

Thank you for the opportunity to comment on draft Schedule H.

Sincerely,

  
Randall DeNeff  
Vice President, Finance



## KANE COMMUNITY HOSPITAL

"Our Mission Is To Deliver Compassionate, High Quality, Cost-Effective Healthcare To Those We Serve."

4372 Route 6 • Kane, PA • 16735 • Tel: (814) 837-8585 • Fax: (814) 837-7992

Website: [www.kanehospital.com](http://www.kanehospital.com)

Email: [kanehospital@westpa.net](mailto:kanehospital@westpa.net)

August 21, 2007

Internal Revenue Service  
Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, D.C. 20224

RE: Comments on Redesign of *Form 990*

To Whom It May Concern:

Kane Community Hospital appreciates the opportunity to comment on the IRS's *Form 990* draft redesign. While we applaud your efforts in developing a new *Form 990*, which has not been revised since 1979, we have significant concerns about the draft redesign. These concerns include components of the Proposed Schedule H, the aggressive implementation date and filing deadlines, as well as the additional cost and burden that will result from the proposed expansion of reporting requirements for our hospital.

As a small rural community hospital (38 beds, 250 employees), we are proud of the community benefit activities and programs, which we provide as part of our core mission. Just one example of these includes our KCH Multi-physics and wellness programs performed several times each year in each of the communities we serve. These community-wide wellness-testing programs provided in Kane, Sheffield, Johnsonburg, and Ridgway screen for numerous health conditions such as cancer, diabetes, heart disease, osteoporosis, obesity, and glaucoma, etc. We also recognize the importance of our accountability to the communities we serve.

As a result of our review of the proposed revisions to the *Form 990*, we have identified areas of concern and would like to share with you the following specific comments and ask that you consider these comments as you finalize changes to the redesigned *Form 990*.

### **Proposed Schedule H**

As proposed, the new Schedule H includes four main components—community benefit, billing and collections, management companies and joint ventures, and general/facility information. There is concern that the proposed Schedule H does not recognize the full value of community benefits provided by tax-exempt hospitals. While the Proposed Schedule H recognizes under funding of care provided to Medicaid, it does not recognize similar under funding by the Medicare program. Medicare, like Medicaid, does not pay the full cost of care for Medicare patients. It is estimated that the cumulative value of these underpayments is twice the amount of the cost of care to the uninsured. This results in our hospital, and in part our community, absorbing and compensating for these underpayments as we fulfill our mission to serve our citizen's health care needs.

It is imperative that Medicare underpayments be included as a community benefit, given the fact that these underpayments represent a real cost of serving elderly patients in our community.

In addition, the Proposed Schedule H does not recognize the cost of patient care bad debt expense as a community benefit. Quite some time ago our facility implemented programs to establish eligibility for financial assistance or charity care, in concert with our mission, and we take appropriate steps to advise patients of their financial obligations and the availability of financial aid or charity care. In fact, we have added the position of financial counselor to our staff to work with patients and the financial issues prospectively in a manner that clearly lays out all the payment options, including charity care. However, despite our best efforts, patients who have received care may still not identify themselves as in need of financial assistance and fail to pay their obligation. This trend is likely to increase as health plans continue to place greater out-of-pocket obligations on individuals. It is patently unfair to NOT consider bad debt as a legitimate community benefit, these dollars (\$900,000 this FY) are absorbed by the organization and for our small hospital are now totaling well over 3% of annual expenses. Our hospital operates on extremely slim margins and we frequently experience a loss on operations, and we do not rely on a huge investment portfolio to make up the difference.

As is the case with recognizing the Medicare shortfall, it is important to recognize as a community benefit the full cost of serving patients who require assistance in paying their bills. These patients have received needed care and hospitals have fulfilled their mission in providing that care. We have supplied the services, labor, and supplies and have not been paid. We have to pay our bills, correct?

Further, in Pennsylvania, our state's Institutions of Purely Public Charity Act recognizes that community benefit includes charity care and financial aid, under funding by government payers (Medicare and Medicaid), and bad debt at cost. Changes at the federal level to the definitions of charity care will be confusing to the public within our state as hospitals seek to demonstrate accountability of service to communities.

#### **Scheduled implementation date and filing deadlines**

It is important to recognize that the new Proposed Schedule H and other newer expanded disclosures will require significant reconfiguration of existing financial and data record-keeping systems for our hospital. These system changes are critical to ensuring that the appropriate data is captured for accurate completion of the new Schedule H, and in particular for the Part I Community Benefit Report.

The aggressive timeline proposed for implementation of the redesigned *Form 990*, would require that our facility begin data collection and record-keeping effective January 1, 2008. That timeline is unrealistic, especially given the fact that the IRS does not anticipate finalizing instructions, definitions, and worksheets needed to collect the data until mid-2008. Without the requisite instructions, all institutions will find it difficult to compile information in a correct and timely manner.

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We strongly encourage the IRS to delay implementation of the Proposed Schedule H to allow for appropriate modifications and development of systems necessary to capture the required financial information. It is recommended that implementation of revised forms be made in 2010, which would allow for the requisite systems changes subsequent to the finalization of instructions, definitions, and worksheets to enable appropriate capture of the requisite data.

With respect to the current tax-exempt filing deadlines that are in place, there is significant concern that we will need to file an extension request annually in order to accurately complete not only the core *Form 990*, but all of the additional schedules (and the various worksheets) that have been added, even if the IRS were to delay the implementation of Schedule H. This seemingly conflicts with the intent of the IRS to reduce reporting burden on filing organizations.

### **Impact of proposed expansion of reporting requirements**

The Proposed Schedule H includes many components that are either not related to the hospital meeting its community benefit, or are related to information already provided in other parts of the *Form 990*. It should be noted that the detailed information requested on charity care is already provided in Part I of Schedule H, thus resulting in duplicative reporting. Finally, information related to the hospital's revenues and Medicare and Medicaid payments is also already included in the *Form 990*.

Additionally, the proposed chart on Schedule H, Part II that relates to billing has no impact on being able to determine whether we have met the community benefit standard. In addition, the chart will impose a significant burden on the hospital with respect to the amount of information and the required personnel resources that will be needed to complete the schedule.

It is important to recognize the need for a balanced approach related to the level of information proposed to be collected, and ultimately, the relevancy of such information. As stated above, the adoption of the redesigned *Form 990* and related schedules will require additional administrative resources to assist in preparation and documentation of these schedules. We have a finance department of 3 people; I would estimate that we would need to hire at least 1 part-time person to comply with these additional requirements.

An unintended consequence of directing resources to administrative compliance activities will be the reduction of resources available to carry out our core mission of caring for those in our community. We do not believe that was the intent of this effort.

We appreciate the opportunity to comment on the redesigned *Form 990* and related schedules, and thank you in advance for consideration of our comments and recommendations.

Sincerely,



J. Gary Rhodes, FACHE  
Chief Executive Officer





# St. Mary's Hospital

August 22, 2007

Internal Revenue Service  
Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, D.C. 20224

***RE: Comments on Schedule H***

On behalf of St. Mary's Hospital of St. Mary's County, Leonardtown, Maryland, thank you for the opportunity to comment on the new draft Schedule H (Hospitals) to Form 990. We are writing now because we understand that the Internal Revenue Service (IRS) is requesting early comment on the forms and plans several rounds of changes.

We appreciate the work that the IRS has put into the new form and schedules and its openness to comments from the hospital community. However, we have serious concern about Schedule H. The new Hospital Schedule H should allow our hospital to report the great diversity of community benefits we provide, and it should not redefine community benefits in a manner that permits others to determine what programs and services are most appropriate for our community.

We are proud of our community benefit activities and programs which include, but are not limited to, the following:

- Health Share. This is a program which pools healthcare providers who provide the uninsured and under insured in the "gray zone" with free or discounted service.
- St. Mary's Hospital's charity care program provides free and/or discounted service to persons at or near the federal poverty level.
- St. Mary's Hospital's mobile outreach center provides the community with free health screening tests and education on preventing the most prevalent illnesses impacting our community.
- Emergency care is enhanced through the education of Advanced Life Support (ALS) and Pediatric Advanced Life Support (PALS) personnel and the operation of a clinic in an area remote from this Hospital.
- St. Mary's Hospital also participates with the St. Mary's Community Health Advisory Committee.
- Because of St. Mary's Hospital's location, the Hospital spends significant sums of money to attract needed physicians to the area. This is particularly true in the medical specialty areas.

Based on our initial reviews, we have three primary concerns with Schedule H that we are asking the IRS to address:

- The filing deadline for Schedule H is far too short and should be extended.
- Maryland hospitals report special considerations under Schedule H, and
- Delete the billing chart on Schedule H.

**IMPLEMENTATION SHOULD BE DELAYED UNTIL 2010 TO ACCOMMODATE THE DELAY THE IRS ANTICIPATES IN ISSUING INSTRUCTIONS, AS WELL AS THE NEED TO ADJUST OR CREATE SYSTEMS TO CAPTURE THE REQUIRED FINANCIAL INFORMATION.**

We are committed to transparency. However, as we have learned in Maryland, the burden of having to reconfigure financial and data record-keeping systems in time to begin capturing the substantial amount of data required just for the Part I Community Benefit Report by January 1, 2008, is itself a daunting task. It is made virtually impossible by the fact that the instructions, definitions and worksheets needed to collect that data are not expected to be finalized until mid-2008. Thus, a two year transition is essential.

#### **Maryland Hospitals Merit Special Consideration under Schedule H**

We would like to emphasize that Maryland hospitals meet and exceed the community benefit standard established by the 1969 IRS Ruling which requires hospitals to: (1) operate an Emergency Room open to all, regardless of ability to pay; (2) have an independent board of trustees comprised of representatives of the community; (3) have an open medical staff policy with privileges available to all qualified physicians; (4) provide care to all persons in the community; and, (5) utilize surplus funds to improve the quality of patient care, expand facilities, and advance medical training, education, and research.

For the past 30 years, Maryland hospitals have met community benefit obligations in a unique manner which builds the costs of uncompensated care (charity care and patient bad debt) and graduate medical education into the rates that hospitals are reimbursed by all payors. The system is based in federal and state law and benefits all Maryland residents, including those in need of financial assistance to pay their hospital bills.

Maryland is the only state in which all payors (governmentally insured, commercially insured or self pay) are charged the same price for services at any given hospital.

Under this system, Maryland hospitals are regulated by the Health Services Cost Review Commission (HSCRC), a state agency that is required to:

- Publicly disclose information on the cost and financial position of hospitals;
- Review and approve hospital rates;

- Collect information detailing transactions between hospitals and firms with which their trustees have a financial interest; and,
- Maintain the solvency of efficient and effective hospitals.

In 2000, the Maryland state legislature required the HSCRC to establish a framework for reporting the hospitals' community benefits and subsequently issuing an annual report regarding the hospitals' community benefit totals.

According to the HSCRC, Maryland hospitals provided over \$233 million in charity care in fiscal year 2006. Beyond that, Maryland hospitals provided an additional \$490 million worth of benefits to our communities through other activities such as, but not limited to, clinics for underserved communities, education programs for at-risk populations and community health improvement advocacy. These programs and services touch the lives of over 700,000 people.

We believe that the IRS needs to take measures to clearly distinguish Maryland hospitals from other hospitals, so that the quantifiable benefits our hospitals report will not be misrepresented.

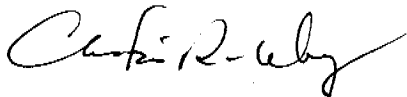
We would like to suggest that the IRS allow Maryland hospitals to provide a standard notation or explanation on the front page of the form or use some other mechanism to alert reviewers to their unique circumstances. We believe it is vitally important that the hospitals' information is reviewed in the proper context and not used in aggregate calculations.

#### **Delete the Billing Chart on Draft Schedule H**

We also recommend that the billing chart that appears on page 2 of the draft Schedule H be eliminated. Among other concerns, Maryland's unique rate setting system would render that chart even more confusing for reviewers of the data.

Thank you for the opportunity to comment on draft Schedule H.

Sincerely,



Christine R. Wray  
President and Chief Executive Officer

CRW:ayt

**From:** [Jim McCeney](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Misspelling Sch M  
**Date:** Wednesday, August 22, 2007 9:25:24 AM  
**Attachments:**

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“Initial” is misspelled in line 29 of Schedule M.

James B. McCeney  
400 Main St.  
Laurel, MD 20707  
301 776-7036

**From:** [Karen Wood-Campbell](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Comments  
**Date:** Wednesday, August 22, 2007 12:10:14 AM  
**Attachments:**

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I am a treasurer for small, grassroots nonprofits with one or no employees. This new form, if required for all nonprofits, will significantly increase the workload for the preparers, for very little return in terms of useful information for donors. For many of these very small organizations, report preparation is already a challenge. They are often not well-connected to the wealthier professionals in their community, and thus have difficulty finding people who are qualified to prepare these reports, especially if they cannot compensate them for the work involved. This new form is very much directed at larger organizations. Most of it is totally irrelevant to smaller organizations, and in fact will make these organizations look as though they are lacking in governance because they often do not have all of the formal, written policies which are required by large organizations.

Overall, this form is going to greatly increase the workload for small nonprofits who are already running with underpaid, overworked staff and volunteers. I fervently hope that you are planning to keep the 990EZ, or some form thereof. And if so, please carefully consider the threshold of gross receipts. One of the nonprofits I work with, for example, has virtually no paid staff (organizers are paid in credits for program services, less than \$500/year apiece), but has a large amount of program revenue. Perhaps the threshold could be changed to a basis of payroll rather than a basis of gross receipts, as a more accurate indicator of the size of the organization. Or, if kept to gross receipts, please consider that gross receipts of \$25,000 is not a terribly large annual budget. You can have maybe one full-time employee with that budget (assuming you have no or very little rent.) I would suggest raising the threshold to \$50,000 at a minimum.

Finally, a line item: Part I line 2. The spaces are way too small to fit in the activity descriptions.

Thank you for your consideration of my comments.

Karen Wood-Campbell  
Pittsburgh, PA

**From:** [Chiamaka Chukwurah](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Comments on redesigned 990  
**Date:** Wednesday, August 22, 2007 3:26:21 PM  
**Attachments:**

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As a small, but growing non profit, my concern is whether the form 990-EZ will be discontinued. This is less paper work for small organizations such as ours that receives less than \$100,000 in revenues per year.

Chiamaka Chukwurah  
Life and Learning Centers

**From:** [Jim Brown](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Revisions needed  
**Date:** Wednesday, August 22, 2007 4:41:24 PM  
**Attachments:**

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To Whom It May Concern:

The rural electric cooperative community applauds the Internal Revenue Service for their efforts in revising the Form 990. The only concern we have is the burden of administrative cost, which along with the rising costs of Power Supply, will only eventually lead to a rise in the kWh rate.

We run our non-profit Cooperative on a near shoe-string budget. With only 7 meters per mile to obtain any revenue for improving service and reliability for our member/owners, we are very much unlike other non-profit entities and broad brushing a cooperative with a straight formula serves no benefit to the members other than to force the potential hiring of more employees or increased administrative burdens such as those pointed out by the NRECA in their comment letter. Schedule J already complies with the compensatory aspects of a non-profit. Additional requirements could become over-bearing for the especially small cooperative struggling to stay afloat, financially.

If Rural Electric Cooperatives do not bring electricity to the remote parts of the country, who else will?? There is a reason large electric utilities did not branch out too far into remote areas and that is because of profitability and return on investment. They are in it to make money...we are not...and any "profit" turned @ year end is returned to the membership in kind with patronage. This system has worked since the FDR administration and while there are abuses in the non-profit industry, one would be hard pressed to find them among REC's.

Again, the Internal Revenue Service has to be commended for it's actions and the areas of concern are real, based on past issues with certain entities reporting. We as a whole in the Rural Electric Cooperative Community hope the NRECA

response letter to the redesign are considered in whole for the entire Cooperative community. Thank you for your time and understanding.

James J. Brown

Director of Finance & Admin.

Paulding-Putnam Electric Cooperative, Inc.

910 N. Williams Street

Paulding, Ohio 45879

(800) 686.2357

(419) 399.3026 FAX



**From:** [Rosenthal, Irvin](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Draft Form 990 Comments from UJA-Federation of New York  
**Date:** Thursday, August 23, 2007 10:06:52 AM  
**Attachments:**

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**TO:** Internal Revenue Service  
**FROM:** UJA-Federation of New York  
Irvin A. Rosenthal, Chief Financial Officer  
**DATE:** August 23, 2007  
**RE:** Comments on Draft Revision of Form 990

UJA-Federation of New York is the largest broadly-based local philanthropy in the United States. We would like to acknowledge the work of the Internal Revenue Service in preparing the draft redesign of Form 990. In general, we believe that it contributes substantially to the fundamental purpose of making financial information about not-for-profit organizations more available to and understandable by the public.

We have comments on a number of specific sections of the form. While some of the issues are technical, most address concerns that particular methods of presenting information are likely to create confusion or misunderstanding on the part of readers.

In general, this problem arises because the form requires a method of presentation or computation that is at odds with the common understanding by the public of certain terms or concepts. For example, although the common meaning of the term “fundraising” involves solicitations of contributions from private individuals or entities, the form on its face includes government grants without separately identifying them. Similarly,

the fundraising ratio is universally defined by publications and websites that evaluate charities to mean the ratio of fundraising expenses to private support. The computation of the fundraising ratio on the face of the proposed form, although not so identified by name, requires that government grants be included. A third example is compensation. Amounts that an employee could receive currently but has chosen to defer or use on a pre-tax basis would be considered by most people to be compensation, but the proposed form excludes the non-taxable amounts and thus distorts comparison.

Our specific comments follow.

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## **(I) Core Form**

### **Part I – Summary**

- Line 1 – The space allotted for a description of the organization’s mission is inadequate to provide the reader with an overall understanding of the nature of the organization.
- Line 2 – The activity codes provided are too general and do not afford the reporting organization the opportunity to highlight its significant activities and accomplishments.
- Lines 8a/b – Further clarification is necessary regarding the definition of “key employee” in order to maintain reporting consistency among organizations. Based upon how different organizations interpret the definition of a “key employee”, the calculated percentage on line 8(b) may not be objective. Also, the percentage calculation (senior level compensation as a percentage of program service expense) is not an indicator of organizational effectiveness and does not afford a meaningful comparison between organizations.
- Line 11 – Contributions from private sources (individuals, businesses, and foundations) should be separated from funds received through

government grants. There is a significant difference between fundraising activities aimed at private sources and those aimed at government sources. Since providing information about fundraising is a key purpose of the Form 990, users should be presented with this information on the face of the form. This relates directly to the comment on Line 19b relating to the fundraising ratio.

- Line 14 – Although we understand that unrealized transactions are not reported on Form 990, the exclusion of unrealized gains and losses from total investment income distorts the presentation of investment performance of the reporting entity, particularly for organizations with large endowments that have significant unrealized investment transactions. Either the definition of Investment Income should be changed to include unrealized gains and losses (in conformity with GAAP) or the reconciliation of net assets, appearing on Schedule D-Section XIII of the draft Form 990, should be placed on page 1 of the core form to mitigate this problem.
- Line 19b – Most people do not think of government grants as “fundraising” proceeds, and organizations and publications that provide data on not-for-profit organizations use only private support in computing the fundraising ratio. Requiring that Form 990 show on its face a fundraising ratio that includes government grants will be misleading to the user, a problem that is compounded by inclusion of government sources in contribution revenue (see comment on Line 11) without any indication that they are so included .
- Line 24b – Expenses as a percentage of net assets is not a meaningful ratio for analyzing an organization or for comparing it to other organizations, particularly since it does not take account of what net assets are expendable.
- Line 26 – Greater clarity is needed in the core form instructions to explain that this line item refers to contractual arrangements with professional fundraising individuals and organizations.

**Part II – Compensation and Other Financial Arrangements with Officers, Directors, Trustees, Key Employees, Highly Compensated Employees, and Independent Contractors**

- Section A- Although we generally agree with the use of Form W-2 for reportable compensation, Box 5 of such form only includes taxable wages, not gross wages. This could distort comparative compensation data among organizations, particularly those with deferred compensation (e.g. Internal Revenue Code Section 403(b) plans) or nontaxable benefit plans (e.g. flexible benefit and qualified transportation plans). These types of deferred or nontaxable compensation should be added back to the W-2 wages.
- Section B, Line 5 – A 5-year look-back period would be too burdensome for the reporting organization to comply with relative to the benefit to be derived by the user of such information, particularly in the case of a large organization or one with a large board of directors. In fact, it may be impossible to obtain the required information.

**Part III – Statements Regarding Governance, Management, and Financial Reporting**

- In general, sensitive questions are posed that only allow for a yes or no reply. There should be additional space allotted for supporting explanations in order to provide the reader with a better understanding of the reporting organization's response.
- Line 3b – The answer to this question may be incorrectly interpreted by the reader. How does the number of transactions reviewed relate to the total number of transactions (and what is the definition of a transaction)? Does a small number of transactions mean that the organization had few potential conflicts or that it was lax in identifying when a potential conflict exists? Similarly, does a large number indicate a true conflict problem or a hair-trigger attitude to reviewing potential conflicts?

- Line 10 – The question should provide for alternative options such as designated committees of the governing body (audit committee, finance committee, executive committee).

#### **Part IV – Statement of Revenue**

- Line 1e – Government grants to provide services to the general public should be reported in the program service revenue section of Part IV rather than in contribution revenue. Inclusion within the contribution revenue section would lead to a reporting distortion of the fundraising ratio among organizations, specifically between entities that are receiving significant government grants and those organizations that are not reliant upon such funding. Significant fundraising costs generally are not incurred in securing government funding as opposed to organizations that rely on extensive annual, special, and capital fundraising efforts to raise charitable funds. As noted above, government contracts for services are not considered to be “fundraising” within common parlance.
- Lines 4 to 6, 8 and 10 – Investment returns should be reported net of costs of investment management rather than reporting those costs as part of management and general expenses. To report otherwise substantially distorts overhead costs, particularly for organizations that have large endowments to which they apply a spending policy. Users of Form 990 have a legitimate interest in understanding the relationship between an organization’s overhead – the cost of providing its operating infrastructure – and its expenditures on program services. Including investment management costs in overhead distorts this relationship for two reasons: first, these costs do not represent operating infrastructure but are more akin to real estate rental expenses that are subtracted from gross rental income on Form 990 to determine net rental income; and second, much of these costs in fact go to “benefit” the endowment in the form of growth rather than directly supporting current operations.

#### **Part V – Statement of Functional Expenses**

- Line 11f – Investment management fees should be netted against investment income. See comment to Core Form – Part IV, lines 4 to 6

and 8 to 10.

## **(II) Supporting Schedules**

### **Schedule A – Supplementary Information for Organizations Exempt Under Section 501(c)(3)**

- Part II - Support Schedule – The instructions should require completion of the schedule on the cash basis only for increased objectivity and consistency of reporting among entities.

### **Schedule D – Supplemental Financial Statements**

- Part XII – Endowment Funds – Requiring data for 5 years is excessive. Clarify whether this section applies only to permanently restricted funds or any funds considered by the organization to be endowment funds (e.g., board designated unrestricted funds to which a spending policy is applied). Furthermore, all uses (expenses) should be combined into a single line item as organizations have flexibility in the various ways expenditures can be sourced (i.e., expenditures that are not funded from a purpose-restricted source may be funded from unrestricted contribution or service income or from unrestricted income provided by endowment funds; how any particular expenditure is funded therefore is not meaningful).
- Part XIII – Reconciliation of Net Assets – This reconciliation should be placed on the core form, as noted in our prior comment regarding Core Form- Part I -Summary- Line 14.

### **Schedule F – Statement of Activities Outside the U.S.**

- Part I – Line 5a – It would be impractical for organizations with a large number of donors (such as ours, with over 65,000 donors) to make a good faith effort to obtain the required relationship to donor information. The question should be eliminated or limited to members of the selection committee that is empowered to recommend a grant.

**Schedule I – Supplemental Information on Grants and Other Assistance to Organizations, Governments and Individuals in the U.S.**

- Part I – Line 2a – See comment for Schedule F- Part I- Line 5a.

**Schedule J – Supplemental Compensation Information**

- Line 1 – As stated previously, although we generally agree with the use of Form W-2 for reportable compensation, Box 5 of such form includes only taxable wages, not gross wages. This could distort comparative compensation data among organizations, particularly those with deferred compensation (e.g. Internal Revenue Code Section 403(b) plans) or nontaxable plans (e.g. flexible benefit and qualified transportation plans). These types of deferred or nontaxable compensation should be added back to the W-2 wages.

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UJA-Federation cares for those in need,  
rescues those in harm's way, and  
renews and strengthens the Jewish people  
in New York, in Israel, and around the world.

**From:** [Jody Blazek](#)  
**To:** [Pattara Theresa; Lerner Lois G;](#)  
**CC:** [\\*TE/GE-EO-F990-Revision;](#)  
**Subject:** Revisions Part 1 of 2  
**Date:** Thursday, August 23, 2007 12:36:05 PM  
**Attachments:** [BV Comments on 990 draft aug. 21 \(1 of 2\).pdf](#)

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**From:** Jody Blazek  
**Sent:** Wednesday, August 22, 2007 6:03 PM  
**To:**  
**Cc:** 'Form990Revision irs.gov'  
**Subject:** Revisions

In response to the discussion with our AICPA committee, I have revised my suggestions for the Summary page. Again, this email will have to come in two parts due to the size of the attachments.

Whew - what an effort this is. Thanks again for seeking the sector's input.

*Jody Blazek CPA  
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2900 Wesleyan, Suite 200  
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(713) 439-5740 fax*

**IRS Circular 230 Disclosure:** As provided for in U.S. Treasury regulations, advice (if any) relating to federal taxes contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (1) avoiding penalties under the tax code or (2) promoting, marketing or recommending to another party any plan or arrangement addressed herein.



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**Theresa Pattara and Lois Lerner**  
**Internal Revenue Service**  
[Form990Revision@irs.gov](mailto:Form990Revision@irs.gov)  
**By email**

Dear Theresa, Lois, and Redesign team members,

The following comments supplement the comments we sent on August 7, 2007. Our new suggestions include the following:

- Revised Summary based on comments from the August 16<sup>th</sup> meeting.
- Revised ordering of parts and schedules, plus redesigned pages 8 and 9.
- Thresholds to relieve filing burdens for modest organizations.
- Ideas about the future of Form 990-EZ.

# Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

# 20XX

**Open to Public Inspection**

Department of the Treasury  
Internal Revenue Service (77)

The organization may have to use a copy of this return to satisfy state reporting requirements.

<b>A</b> For the 20XX calendar year, or tax year beginning		, 20XX, and ending		, 20		
<b>B</b> Check if applicable: <input type="checkbox"/> Address Change <input type="checkbox"/> Name Change <input type="checkbox"/> Initial Return <input type="checkbox"/> Termination <input type="checkbox"/> Amended Return <input type="checkbox"/> Application pending	Please use IRS label or print or type. See Specific Instructions	<b>C</b> Name of organization		<b>D</b> Employer identification number		
		Number and street (or P.O. box if mail is not delivered to street address).		Room/suite	E Telephone Number ( )	
		City or town, state or country, and ZIP + 4				
<b>F</b> Website:			<b>H</b> Accounting Method:			
			<input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Other			
<b>G</b> Enter amount of gross receipts \$			<b>I</b> Books			
			In care of			
			Located at			
<b>J</b> Organization type (check only one) <input type="checkbox"/> 501(c) ( ) (insert no.) <input type="checkbox"/> 4947 (a)(1) or <input type="checkbox"/> 527			Telephone Number ( )			
<b>K</b> Year of Formation:			<b>L</b> State of legal domicile			

## Part I Summary

<b>Activities</b>	<b>1</b> Briefly describe the organization's exempt purpose and accomplishments. (See Part IX for details). ..... ..... ..... ..... ..... ..... ..... ..... .....		
	<b>2</b> Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its assets and attach Schedule N.		
<b>Revenues</b>	<b>3</b> Contributions and grants (Part IV, line 1g, column (A))	Prior year	This year
	<b>4</b> Program service revenue (Part IV, line 2g, column (A))		
	<b>5</b> Membership dues and assessments (Part IV, line 3, column (A))		
	<b>6</b> Investment income (Part IV, line 11, column (A))		
	<b>7</b> Other revenue (Part IV, line 15, column (A))		
	<b>8</b> Total revenue (add lines 4 through 8, must equal Part IV, line 14, column (A)) (See Part IV for analysis of income-producing activities and Schedule G for Gaming and Fundraising Activity)		
<b>Expenses</b>	<b>9</b> Program service expenses (Part V, line 24, column (B))		
	<b>10</b> Management and general expenses (Part V, line 24, column (C))		
	<b>11</b> Fundraising expenses (Part V, line 24, column (D))		
	<b>12</b> Total expenses (must equal Part V, line 24, column (A)) See Part V.		
<b>Net Assets or Fund Balance</b>	<b>13</b> Excess of revenue over expenses (line 8 minus line 12)		
		Beginning of Year	End of Year
	<b>14</b> Total assets (Part VI, line 17)		
	<b>15</b> Total liabilities (Part VI, line 27)		
	<b>16</b> Net assets or fund balances (line 14 minus line 15) See Part VI.		
<b>More Information</b>	<b>17</b> Enter the number of members of the governing body (Part III, Line 1a)	<b>17</b>	
	<b>18</b> Enter the number of independent members of the governing body (Part III, Line 1b)	<b>18</b>	
	<b>19</b> Enter the total number of employees (Part VIII, Line 9a)	<b>19</b>	
	<b>20</b> Enter the estimated number of volunteers the organization had during the year	<b>20</b>	
	<b>21</b> Enter officer, director, trustee, and other key employee compensation (Part V, Line 5, column (A))	<b>21</b>	
	<b>22</b> Divide line 21 by line 12 (Also see Part II and Schedule J for details).	<b>22</b>	%
	<b>23</b> See Parts VII and VIII for listings of schedules and returns that may be required plus general information.		

**Part VII Statements Regarding Activities**

		Yes	No																
<b>1</b>	Is the organization exempt under 501(c)(3)? If "yes," complete Schedule A. ....																		
<b>2</b>	Is the organization required to attach Schedule B, Schedule of Contributors? .....																		
<b>3</b>	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? If "yes," complete part VIII of Schedule D and Schedule M (if required). ....																		
<b>4</b>	Did the organization maintain any donor advised funds or any accounts where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "yes," complete part IX of Schedule D. ....																		
<b>5</b>	Did the organization maintain collections of works of art, historical treasures, or other similar assets for public exhibition, education, or research in furtherance of public service rather than financial gain? If "yes," complete part X of Schedule D. ....																		
<b>6</b>	Did the organization provide credit counseling, debt management, credit repair, or debt negotiation services? If "yes," complete part XI of Schedule D. ....																		
<b>7</b>	Does the organization hold assets in term or permanent endowments? If "yes," complete part XII of Schedule D. ....																		
<b>8</b>	Did the organization operate, or maintain a facility to provide hospital or medical care? If "yes," complete Schedule H. ....																		
<b>9</b>	Is the organization a school as described in Section 170(b)(1)(A)(ii)? If "yes," complete Schedule E. ....																		
<b>10</b>	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "yes," complete Schedule C. ....																		
<b>11</b>	Did the organization engage in lobbying activities? If "yes," complete Schedule C. ....																		
<b>12</b>	During the year, did the organization conduct any of the following outside the U.S.?																		
<b>a</b>	grantmaking, fundraising, trade, business, or program service activities? .....	<b>12a</b>																	
<b>b</b>	maintain an office, employees, or agents? .....	<b>12b</b>																	
<b>c</b>	maintain an interest in, or signature or other authority, over a financial account? .....	<b>12c</b>																	
If "yes," to any of these questions, complete Schedule F.																			
<b>13</b>	At any time during the year,																		
<b>a</b>	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations Section 301.7701-2 and 301.7701-3? If "yes," complete Schedule R. ....	<b>13a</b>																	
<b>b</b>	Was the organization related to any tax-exempt or taxable entity? If "yes," complete Schedule R. ....	<b>13b</b>																	
<b>c</b>	Did the organization conduct all or a substantial part of its exempt activities through or using a partnership, LLC, or corporation? .....	<b>13c</b>																	
<b>d</b>	if "yes," identify below the name and primary activity of such partnership, LLC, or corporation in which the organization's ownership or control was 50% or less (attach additional pages if necessary):																		
<table border="1" style="width:100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Name</th> <th style="width: 30%;">Primary Activity</th> <th style="width: 15%;">Ownership %</th> <th style="width: 25%;">Type of Entity</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>		Name	Primary Activity	Ownership %	Type of Entity														
Name	Primary Activity	Ownership %	Type of Entity																
<b>e</b>	Was the organization a partner in a partnership, member of an LLC, or shareholder of a corporation that was managed by a company that was controlled by taxable partners, members or shareholders? .....	<b>13e</b>																	
<b>14</b>	Did the organization have any tax-exempt bonds outstanding at any time during the year? If "yes," Complete Schedule K. ....	<b>14</b>																	
<b>15</b>	<b>501(c)(3) and 501(c)(4) Organizations</b> Check box if not one of these organizations. <input type="checkbox"/>																		
<b>a</b>	During the year, did the organization engage in an excess benefit transaction with a disqualified person? .....	<b>15a</b>																	
<b>b</b>	Did the organization become aware that it had engaged in an excess benefit transaction with a disqualified person during a prior year? .....	<b>15b</b>																	
<b>c</b>	If "yes," to 15a or 15b, complete the table below (attach additional pages if necessary):																		
<table border="1" style="width:100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">Name of Disqualified Person</th> <th style="width: 40%;">Description of Transaction</th> <th style="width: 30%;">Corrected? (Y/N)</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>		Name of Disqualified Person	Description of Transaction	Corrected? (Y/N)															
Name of Disqualified Person	Description of Transaction	Corrected? (Y/N)																	
<b>d</b>	Enter the amount of tax imposed on the organization managers or disqualified persons during the year under Section 4958. ....	<b>15d</b>																	
<b>e</b>	Enter the amount of tax on line 5d reimbursed by the organization. ....	<b>15e</b>																	
<b>16</b>	<b>501(c)(7) Organization.</b> Enter:																		
<b>a</b>	Initiation fees and capital contributions included on Part IV, line 14 .....	<b>16a</b>																	
<b>b</b>	Gross receipts, included on Part IV, for public use of club facilities .....	<b>16b</b>																	
<b>17</b>	<b>501(c)(12) Organization.</b> Enter:																		
<b>a</b>	Gross income from members or shareholders .....	<b>17a</b>																	
<b>b</b>	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them) .....	<b>17b</b>																	

**Part VIII Statements Regarding Disclosures and Other IRS Filings**

		Yes	No	N/A
<b>1 a</b>	Did the organization provide goods or services in exchange for any contribution of \$75 or more? .....	<b>1a</b>		
<b>b</b>	If "yes," did the organization notify the donor of the value of goods or services provided? .....	<b>1b</b>		
<b>2 a</b>	Did the organization solicit any contributions that were not tax deductible? .....	<b>2a</b>		
<b>b</b>	If "yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible? .....	<b>2b</b>		
<b>3 a</b>	During the year, did the organization maintain a foreign bank account or have foreign investments? .....	<b>3a</b>		
<b>b</b>	If "yes," has it filed other forms related to such investment(s) for this year (TDF 90-221, 926, 5471, 8621, 8858, 8865)? .....	<b>3b</b>		
<b>4 a</b>	Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return. <b>4a</b>			
<b>b</b>	If at least one, did the organization file all required employment tax returns? .....	<b>4b</b>		
<b>5 a</b>	Did the organization have gross unrelated business income of \$1,000 or more during the year covered by this return? .....	<b>5a</b>		
<b>b</b>	If "yes," has it filed a Form 990-T for this year? .....	<b>5b</b>		
<b>6 a</b>	Is the organization filing Form 990 in lieu of Form 1041? .....	<b>6</b>		
<b>b</b>	If "Yes," enter the amount of tax exempt interest received or accrued during the year. <b>6b</b>			
<b>7</b>	For all contributions of automobiles, did the organization file Form 1098-C as required? .....	<b>7</b>		
<b>8 a</b>	Did the organization file Forms 1099 as required? .....	<b>8a</b>		
<b>b</b>	If "yes," indicate the number filed <b>8b</b>			
<b>9 a</b>	During the year, did the organization have political organization taxable income under Section 527(f)(1)? .....	<b>9a</b>		
<b>b</b>	If "yes," has it filed a Form 1120-POL for this year? .....	<b>9b</b>		
<b>10 a</b>	During the year, did the organization engage in any transaction subject to excise tax under Chapter 41 or 42 of the Internal Revenue Code? .....	<b>10a</b>		
<b>b</b>	If "yes," did the organization file Form 4720 for this year? .....	<b>10b</b>		
<b>11 a</b>	Does the organization have any employee benefit plans? .....	<b>11a</b>		
<b>b</b>	If "yes," has it filed Form 5500 for this year? .....	<b>11b</b>		
<b>12 a</b>	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it filed Form 8282? .....	<b>12a</b>		
<b>b</b>	If "yes," how many Forms 8282 did the organization file during the tax year? <b>12b</b>			
<b>13 a</b>	During the year, did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? .....	<b>13a</b>		
<b>b</b>	During the year, did the organization pay premiums, directly or indirectly, on a personal benefit contract? .....	<b>13b</b>		
<b>c</b>	If "yes," to 13b, has it filed Form 8870 for this year? .....	<b>13c</b>		
<b>14</b>	<b>527 Organization</b> Was the organization required to file Form 8872? .....	<b>14</b>		
<b>15 a</b>	Was the organization party to a prohibited tax shelter transaction at any time during the tax year? .....	<b>15a</b>		
<b>b</b>	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction? .....	<b>15b</b>		
<b>c</b>	If "yes," to 3a, did the organization file Form 8886-T? .....	<b>15c</b>		
<b>16</b>	For all contributions of qualified intellectual property, did the organization file Form 8899 as required? .....	<b>16</b>		

## Form 990 Draft June 14, 2007

### Suggested Order of Core Form Parts

<b>Part Description</b>	<b>Recommended</b>	<b>IRS draft</b>
Summary	I	I
Statement of Program Service Accomplishments	II	IX
Statement of Revenue	III	IV
Statement of Functional Expense	IV	V
Balance Sheet	V	VI
Statements Regarding Governance, Management, and Financial Reporting	VI	III
Compensation and Other Financial Arrangements With Officers, Directors, Trustees, Key Employees, Highly Compensated Employees, and Independent Contractors	VII	II
Statements Regarding General Activities	VIII	VII
Statements Regarding Other IRS Filings	IX	VIII
Signature Block	X	X

### Suggested Order of Schedules

<b>Schedule Description</b>	<b>Recommended</b>	<b>IRS draft</b>
Supplementary Information for Organizations Exempt Under Section 501(c)(3)	A	A
Schedule of Contributors	B	B
Supplemental Financial Statements	C	D
Supplemental Information Regarding Fundraising Activities	D	G
Non-Cash Contributions	E	M
Supplemental Information on Grants and Other Assistance to Organizations, Governments, and Individuals in the U.S.	F	I
Supplemental Compensation Information	G	J
Supplemental Information on Loans	H	L
Hospitals	I	H
Schools	J	E
Political Campaign and Lobbying Activities	K	C
Statement of Activities Outside the U.S.	L	F
Related Organizations	M	R
Supplemental Information on Tax Exempt Bonds	N	K
Liquidation, Termination, Dissolution, or Significant Disposition of Assets	O	N

**From:** [Jody Blazek](#)  
**To:** [Pattara Theresa; Lerner Lois G;](#)  
**CC:** [\\*TE/GE-EO-F990-Revision;](#)  
**Subject:** Revisions Part 2 of 2  
**Date:** Thursday, August 23, 2007 12:36:58 PM  
**Attachments:** [BV Comments on 990 draft aug. 21 \(2 of 2\).pdf](#)

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[Here's Part 2.](#)

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**Sent:** Thursday, August 23, 2007 11:37 AM  
**To:**  
**Cc:** 'Form990Revision irs.gov'  
**Subject:** Revisions Part 1 of 2

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**From:** Jody Blazek  
**Sent:** Wednesday, August 22, 2007 6:03 PM  
**To:**  
**Cc:** 'Form990Revision irs.gov'  
**Subject:** Revisions

In response to the discussion with our AICPA committee, I have

## **REVISED Comments on Part I – Summary of IRS Draft of Form 990**

**Lines 1 and 2.** To evidence a nonprofit organization is operating to benefit its exempt constituency, and thereby qualifies for classification as a §501(c) tax-exempt entity, the information presented in the Part I summary should include both a description of the mission or tax-exempt purpose and a brief description of activities conducted to accomplish that goal. There should be sufficient lines to allow the organization to paint a picture of its essential functions. Nonprofit organizations are based on dreams of improving the human condition or achieving a social goal. They work to help children in need or feed the hungry, to save an endangered species, to enhance and improve a profession, and to address a myriad of other issues that benefit the common good of society as a whole or a group of persons with mutual interests. This part should convey that essence with a reference to the detailed description of exempt activities and program service accomplishments, that is relegated on the draft to the last page as Part IX (II). It is in Part IX (II) that the organization describes its activities in detail, explaining its accomplishments and the number of persons served, books published, research reports issued, students taught, and the like. Additionally, the IRS addition of a column on this part to reflect revenue generated in connection with the top three exempt functions is a good idea.

- Summary should be reorganized as illustrated.
- Part IX should be renumbered to become the second page or Part II of core form.
- Activity or NTEE codes should be reflected on Part IX (II), if at all, to allow for statistical comparisons of organizations performing similar functions. NTEE codes will be easy for most organizations to look up since they are readily available on [www.guidestar.org](http://www.guidestar.org). The IRS has made no mention of how one might find an organization's activity code, although it is listed in the IRS Exempt Business Master File.

**Lines 3 – 9.** The financial information is presented first on the revised summary to provide a context for consideration of the governance and compensation information requested.

**Lines 3 and 4.** These lines become Lines 17-18. The great variety of governance patterns and structures – ranging from the 80-person board of a major united giving campaign to the sole trustee of a VEBA – may make these statistics misleading and certainly not comparable across organizations. If line 4 remains, the question should be expanded to ask for the number of independent, or uncompensated and unrelated to those that are, members of the governing body.

**Line 5.** Disclosure of the number of employees may be a meaningless number. Many nonprofits have a significant number of volunteers, in addition to employees, that perform services integral to the operation of the organization. In such cases, the number of employees is not indicative of total work involved in conducting the activities. For example, local Girl Scout programs are primarily conducted by volunteers.

- Proposed Line 20 discloses the estimated number of volunteers the organization had during the year.

**Lines 6 and 7.** The persons who manage as well as those that conduct the daily chores of a nonprofit can, and should, be paid a decent and reasonable wage for the services they perform. Indeed, the vast majority of persons who are compensated by nonprofits are reasonably, if not inadequately paid, for the work they perform. The tone of these compensation questions and ratios on the front page perpetuate the suspicion that nonprofit organizations operate to benefit those that control them. Though this theme has been put forth by skeptics based on a few flagrant abuses highlighted in the press in recent years, it is not the modus operandi of the majority of tax-exempt organizations.

The IRS Executive Compensation Compliance Initiative during 2005-2007 looked at 1,826 organizations. Reporting errors were found, but penalties were only imposed on 40 individuals found to be receiving excessive compensation and benefits.<sup>1</sup> The IRS said they found “high compensation amounts were generally substantiated based on comparability information.” Thus the disclosure – on the front page – of the number of individuals receiving compensation in excess of \$100,000, plus the reportable compensation of the highest paid person, smacks of sensationalism. Focusing attention on the single person who has the highest compensation could be misleading for a number of reasons. His or her tenure with the organization could be longer than others, for example. A better version of his or her comp can be provided when it is viewed in relation to other highly paid persons displayed on Schedule J (G).

A separate issue with Line 7 is that only Form W-2 compensation is displayed from Part II. Non-taxable current and deferred benefits are excluded; thus the total economic benefit provided is not reflected. Suggested new Line 21 presents the total compensation of officers, directors, trustees, and other key employees for the reporting year and refers the reader to Part II and Schedule J for more information.

- Remove lines 6 and 7.

**Lines 8, 19, and 24.** The IRS proposes ratios to evaluate a nonprofit organization with performance indicators or metrics. Given the extraordinary variation in nonprofit operations, finances, and other circumstances, the ratios will not yield indices with which to compare one organization to another.

- Remove or revise the ratios as follows:

**Part I, Line 8b.** This line calculates officer, director, trustee and key employee compensation reported as program expense as a percentage of total program expense. Practices for allocation of functional expenses vary from one nonprofit to the next based

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<sup>1</sup> EO Update March 2, 2007 contains a 10-page report of the study which includes a recommendation that the redesign project focus on reducing the number of places the same information (about compensation) is reported on the form.



on the organization's individual circumstances. Officer compensation may be reported in all three of the functional cost columns on line 5 of Part V (IV). Such an allocation is common for organizations whose officials perform all three functions, particularly modest ones. For major institutions, officer compensation is instead customarily reported in Column C as Management & General Expense. A ratio that compares only officer comp in the Program Service Expense, Column B, to the total of Column B would omit all compensation of such officials. Clearly the suggested ratio will be inadequate, inconsistent, and misleading and would be like an *oranges to apples* comparison in many circumstances.

- If the line 8b compensation ratio is retained, it should compare the total compensation of officials and highly paid persons in relation to total of all expenses on line 20 as shown in our revised Summary page, Line 22.

**Part I, line 19b** – On this line, the organization compares its fundraising costs to the results of that effort. The individual circumstances of each nonprofit often make a comparison of fundraising costs to revenues flawed and inappropriate absent more information. For example, consider a new organization that has launched its initial fundraising campaign. Assume it takes three years for the effort to yield a reasonable level of public support. Comparing its fundraising costs to donations realized during the first year or two would likely yield a very poor, and undeserved, result by comparison to a mature organization. The Better Business Bureau/Wise Giving Alliance guide for calculating this ratio suggests there may be other situations in which the ratio may be flawed, such as when one organization raises money that is restricted to benefit another organization so that the revenue is not reported on the entity paying the bills for the fundraising effort.<sup>2</sup> When an organization's ratio fails to meet the 65% of costs devoted to programs, the BBB/WGA prompts organizations to provide explanations when conditions exist that cause its ratio miss that mark. The Summary provides no opportunity for explanation. If a fundraising efficiency ratio is desirable to provide benchmarks or metrics for nonprofits, it should be tailored for the varying types of nonprofits and presented on a separate part that allows explanations of special circumstances.

**Part I, line 24b.** This line compares the total of current operating expenses to the organization's fund balance. Again the results of this calculation will not be comparable across all nonprofits. Only if the nonprofits could be grouped by discipline, age, location, tax classification, or other factors would this number be useful. For example, a typical §509(a)(3) supporting organization would annually spend a relatively modest portion, and in the case of an asset-holding organization, zero percent, of its fund balance whereas the nonprofit it supports might spend one-half or more. An endowed institution's spending ratio would also be very different from a human service organization that has modest working capital and depends upon government and federated funding entities to provide its annual revenue. Again, unless these differing conditions are taken into account, the ratio would yield flawed comparisons.

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<sup>2</sup> Go to [www.give.org/standards/newcbbbstds](http://www.give.org/standards/newcbbbstds).

**Line 9.** The revised Summary refers the reader to Part IV (III), Statement of Revenue, where unrelated business income is segregated and identified. Listing the information in this part is duplicative and does not describe the source of the unrelated business income. Part VIII (IX) asks whether the organization has unrelated business income and if so, was Form 990-T filed. Very few organizations earn unrelated business income so the need for this public disclosure is limited.

- This line should be deleted.
- The amount of net unrelated business taxable income should be reported in association with the 990-T filing question in Part VIII (IX).

**Lines 11-20.** For the same reasons expressed for lines 8, 9, 19b, and 24b, a comparison of functionally allocated expenses to total expenses without room for an explanation is prejudicial against organizations with special circumstances and should be eliminated. A more informative comparison would be between current year totals and last year's totals.

- The percentage column should instead reflect last year's totals.

**Line 21.** Form 990 is prepared in accordance with the financial reporting practices of the organization so that terms used by the accounting profession should be used. Line 21 (renumbered on the revised Summary as line 13) should be entitled "Excess of revenues over expenses," rather than "Net Income," to conform to the title used on financial statements presented under generally accepted accounting practices.

- Change title of Line 21 (13).

**Lines 25 and 26 -** The prominent position of "gaming" in Part I suggests that a significant portion of Form 990 filers conduct such activity. This fact is not evidenced by the author's experience. The same information is presented in Schedule G (D).

- Remove this information but add reference to Schedule G (D) on line 8.

### **Thresholds & Consolidations**

To reduce the reporting burden for modest organizations, particularly if the existing Form 990EZ is phased out, the suggested \$5,000 thresholds for the following schedules could be increased.

- Schedule F (Statement of Activities Outside the U.S.) >\$25,000
- Schedule G (Supplemental Information Regarding Funding Activities) >\$25,000
- Schedule I (Supplemental Information on Grants and Other Assistance to Organizations, Governments, and Individuals in the U.S.) >\$25,000
- Part III should become a Schedule to be prepared only by organizations with annual revenues in excess of \$1 million.
- The Gaming portion of Schedule G should become a separate schedule.

- Schedule M, Non-Cash Contributions, should be incorporated into Schedule B.

## **Conclusions**

The burden of completing the revised form will undoubtedly increase. The Blazek & Vetterling tax staff estimates that fees for preparation of Form 990 may increase as much as 50% and in some cases could double for time required to provide enhanced details. Suggestions of increased thresholds, particularly simplification of the Schedule J (G) attachment level, would ease the burden somewhat. A \$25,000, rather than \$5,000, threshold for completion of Schedule F (I) and L (F) seems reasonable, particularly if the Form 990-EZ is not maintained. The suggested consolidation of Schedules B and M removes duplicated information. Most significantly, the reordering of the schedules to track the core form plus reorganization of parts VII (VIII) and VIII (IX) will enhance form flow and understanding for the preparers.

The most important threshold question not yet answered is whether Form 990-EZ will remain. We would recommend a revised Form 990-EZ. The lower level of \$25,000 should be retained, with a possible increase to \$200,000 on the top revenue side. Asset level could remain at \$250,000. Annual preparation of the IRS return is a good burden that disciplines the nonprofit to keep adequate financial records and maintain other compliance filings. Questions could be added to Form 990-EZ to prompt filing of Schedules A, B, E (J), G (D) (plus schedule created to bifurcate G for gaming), I (F), L (H), N (O) and R (M) where applicable, plus a condensed version of the compliance questions in Part III. A parallel and laudable goal would be to design a Form 990 for non-501(c)(3) or (4) filers.

Before the draft is cast in stone, specialists in the sector and the IRS should spend time reviewing the new form side-by-side with the instructions with a goal of making the form self-contained. The IRS acknowledges the fact that the reliance on instructions currently cripples the reporting system. Agreed, the rules are complex and often need explaining, but I routinely review 990s of prospective clients completed with total disregard for the instructions. Lastly, the IRS should request the regulation change that would introduce a universal requirement for electronic filing.

Again we compliment you for this effort and the opportunity to assist in achieving a final product that achieves the goals without unnecessary burden on the sector.

Submitted by Jody Blazek

August 21, 2007

**From:** [Sandi Palumbo](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** proposed changes to Form 990  
**Date:** Thursday, August 23, 2007 5:23:50 PM  
**Attachments:**

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I only now learned about the proposed changes to the Form 990 for 501(c)(6) organizations, and ask the IRS to extend its deadline so that I can review and thoughtfully comment on it.

Sandi Palumbo, Executive Director \_\_\_\_\_  
Fresno-Madera Medical Society  
1382 E. Alluvial Avenue, Suite 106  
Fresno, CA 93720  
559/224-4224 ext. 114  
FAX 559/224-0276  
Mobile 661/706-9025

Mailing Address:  
P.O. Box 28337  
Fresno, CA 93729-8337

**From:** [Dicke, Larry](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Form 990  
**Date:** Thursday, August 23, 2007 5:45:46 PM  
**Attachments:**

---

I just heard about the proposed changes. I will need to brief the Executive Committee of our Board of Directors and provide them a comparison before I can comment. Please delay your implementation schedule. Thank you.

Regards,

Larry Dicke  
EVP Finance & CFO  
California Chamber Of Commerce  
1215 K Street, Suite 1400  
Sacramento, CA 95814

Office: 916-930-1217  
Cell: 916-813-7793

**From:** [Jane Fortune](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** 990  
**Date:** Thursday, August 23, 2007 5:55:53 PM  
**Attachments:**

---

Please extend the deadline so that we can adequately review the changes proposed to the 990 form

Jane Fortune  
Executive Director  
Tree Fresno  
776 East Shaw Ave., Suite 102  
Fresno, CA 93710  
(559)221-5556 ext 101  
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[www.treefresno.org](http://www.treefresno.org)

**From:** [david](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Revisions of Form 990: Comment on employment elicited  
**Date:** Sunday, August 26, 2007 3:21:09 PM  
**Attachments:** [MH\\_David\\_Form990revisions\\_comment26aug07.doc](#)  
[ices3\\_pub18aug07fmt2.doc](#)  
[Urban\\_institute\\_report2\\_22may2007.doc](#)

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To the Forms Redesign Committee,

I attach comments and two papers that result from my work in assessing reporting of employment on Form 990. One was presented at the International Conference on Establishment Surveys in June 2007. The second is a more detailed report submitted to the Urban Institute, Washington DC.

I conclude that Form 990 should elicit:

- o Quarterly reports of payroll and employment already filed on Form 941 to release that information for public scrutiny, and
  
- o Form W-3 counts of employees and payroll for all exempt organizations. This latter measure of employment will be larger than Form 941 and non-comparable to any employment measure now produced by the Federal Statistical System.

I can be reached at 608-238-2181 to answer questions that you may have.

Martin H David, Associate Scholar Urban Institute, Emeritus Professor of Economics, University of Wisconsin -- Madison.

## Comment on Form 990 Revision

Martin H. David

Emeritus Professor, University of Wisconsin – Madison,

Associate Scholar, Center for Nonprofits and Philanthropy, Urban Institute, Washington DC

### Expertise

I am a tax economist who served in the Treasury/OTA and more than 20 years on the IRS/SOI advisory board. I have undertaken substantial research on administrative records (compiling 17-year panel of Wisconsin income tax records matched to Social Security earnings and benefit data and probated estate records; linking Forms 990/990-EZ to the BLS *Quarterly Census of Employment and Wages*, 1999-2003). I prepared reports on Form 990 employment reporting and compliance with the filing of annual information returns by newly approved organizations (David, Pollak, and Arnsberger 2005, David 2007a, David 2007b).

### Commentary

1. *Scope.* I confine comment to reporting of employment and volunteer labor by nonprofit organizations. *Both* need to be reported to the public to assure that the approved mission of the 501(c) organization can be carried out.

Work effort is required to produce the socially desired activities of the exempt organization. Volunteer work effort represents an in-kind donation of talent to the activity of the organization. The value of that donation must be added to the cash value of financial donations to assess support for the organization and its activities. In addition to measuring the extent of effort, the annual information return needs to provide enough compensation information to identify the average compensation of full-time and part-time employees.

1. Form 990 should provide:

- Count of employees in a particular pay-period (e.g., the period including March 12),
- Average hours worked during the pay period,
- Count of volunteers during the pay period, and
- Average hours volunteered during the pay period.

2. *Need.* Four arguments support IRS collection of work effort in nonprofits.

- At present no statistical agency provides this information on an annual basis.
- Growth of employment impacts local area economic and social development. Growth appears to be larger in the nonprofit sector than private business activity as a whole.
- Presence of volunteers in the organizations is direct evidence of the value some members of the public place on nonprofit activity. No existing statistical data collection identifies volunteers with the organization in which volunteering occurs. That link is critical to understanding the contribution that the nonprofit makes to local communities and the nation.
- Lastly, some assert that workers in nonprofits are willing to work for less pay than those who carry on identical activity in the for-profit sector. Without a way to measure average pay in particular nonprofit industries, this assertion can not be demonstrated. (The



opposite assertion – that nonprofits pay extravagant salaries for duties similar to for-profit work – can also not be demonstrated.)

3. *Coverage.* Work effort should be measured for *all* nonprofit entities.

Without volunteer or paid effort the organization is inactive (and may be defunct). An indication that the organization is active is necessary to maintaining a credible list of active exempt entities.

No statistical agency undertakes to track employment in very small organizations.

4. *Critique of proposed Form 990.*

Eliciting employees reported on Form W-3 (part VIII, 9a) does not meet the need for employment based on pay periods. During a year turnover of employees increases the employee count on W-2, even though the level of work effort is constant. For example, an organization maintaining two full-time equivalent workers over the year could have many more than two workers reported on W-3. The following table illustrates some possibilities.

Case	Months employed	Hours/worker	W-3, Number of workers
Full-year, full-time	12	40	2
Full-year, half-time	12	20	4
Half-year, full-time	6	40	4
Half-year, half-time	6	20	8

When the nonprofit files Form 941, the count of employees and associated payroll are already reported for each quarter of calendar years preceding the end of the Fiscal year for which Form 990 is filed. Reports on Form 941 can be inserted into Form 990 to make the information available to the public.

For organizations that do not file Form 941, eliciting the count of employees and payroll reported on Form W-3 is a practical procedure to identify employers. It will not permit computation of average wage or the number of workers in a particular pay-period, as it is not known which employees are full-year and which are part-year, and which worked during a reference pay period.

Replacing employment currently reported on Form 990 (for the March 12 pay period) with employee counts from W-3 degrades the quality of employment data that IRS is reasonably successful in collecting. This will make Form 990 employment noncomparable to other employment measures. Requiring reports of Form 941 employment and payroll from filers of those forms is distinctly superior.

6. *Report on matching Forms 990/990EZ to BLS employment data.* I attach two reports on counting employment for your use.

David, Martin H. August 2007. Combining Administrative Records and Business Registers to Obtain Quarterly Estimates of Employment in the Nonprofit Sector in the USA. (Forthcoming in Proceedings of the International Conference on Establishment Statistics III).

David, Martin H. May 2007. Distorted measures of employment in charitable organizations: Causes, impact and remedies. Report to the Urban Institute. 37 pages.

### **Other references**

David, Martin H. 2005. Administrative Statistics on Nonprofit Organizations: Do they fulfill the Public Right to Know? 2004 ASA Proceedings. Alexandria VA: American Statistical Association. (CD- ROM publication)

\_\_\_\_\_. 2007a. Employment in Nonprofit Entities: Coverage, Bias, and Measurement Errors in QCEW and public IRS Information, 1999-2003. 2006 ASA Proceedings. Alexandria VA: American Statistical Association. (CD-ROM publication).

\_\_\_\_\_. 2007b. Distorted measures of employment in nonprofit organizations: Causes, impact, and remedies. DRAFT available from the author.

David, Martin H, Thomas Pollak and Paul Arnsberger. 2006 Compliance with information reporting: Exempt Organizations. *IRS Research Bulletin: Recent Research on Tax Administration and Compliance* (Publication 1500) 231-245.

## Combining Tax Records and Business Registers to Obtain Estimates of Nonprofit Employment in the USA

Martin H. David

Associate Scholar Urban Institute, Washington DC; Emeritus Professor, University of Wisconsin – Madison

### Abstract

Active nonprofit organizations are identified in a public registry. Their annual information documents are also public. Sampling frames at the Census Bureau and the Bureau of Labor Statistics (BLS) can be updated monthly with tax-exempt status of the organization operating the establishment. Employment in nonprofits can then be estimated from existing sampling frames that are already used to measure employment in business establishments.

Use of the BLS *Quarterly Census of Employment and Wages* (QCEW) matched to IRS sources demonstrates the feasibility of such estimates. The match reveals item nonresponse and match errors that are overcome by imputation, editing, and modeling. Estimates of employment in nonprofit charitable organizations are substantially larger than any prior report.

**Keywords:** record linkage, match error, imputation, response error

### 1. More informative estimates of employment for nonprofits in the USA

Four objectives appear important for estimates pertaining to the nonprofit sector: more comprehensive measurement, more timely estimates, comparative estimates for nonprofit and for-profit entities in the same industry, and a cross-walk between the NTEE and NAICS classification systems. In this paper we propose a procedure for estimating employment that advances each of these objectives.

The private nonprofit sector includes religious congregations and all nongovernmental organizations that receive exemption from corporate taxation under *Internal Revenue Code* §501(c). *Charitable organizations* are exempted under §501(c)(3). Those organizations are substantially financed by donors who receive a tax subsidy for their contributions. The combination of tax exemption for approved organizations and personal tax subventions for donors imply that information about the nonprofit sector should be timely, public, comprehensive, transparent, widely-shared, and of high quality. Presently, those adjectives do not apply to employment estimates available for the sector.

In this paper we show that available estimates understate the level of employment in the nonprofit

sector, they are not timely, and they exclude many employees of small organizations.

### 1.1 Why are improved estimates needed?

Available estimates of nonprofit employment (Salamon-Sokolowski 2006; Census 2002) indicate that the sector includes about 9m employees, seven percent of private sector employees. The sector accounts for much larger proportions of employees in education, health, and social service industries. The number of employees is large, and the sector share of private employment has been growing.

Nonprofits create substantial externalities that substitute for and augment services provided by governments and for-profit businesses. A timely measure of employment is a proxy for the level of those services; change in employment is an indicator of change in the levels of those services.

Helliwell-Huang (2005) assert that labor markets for workers in nonprofit organizations differ from markets for the same skills in the for-profit sector. They cite evidence that job satisfaction is greater for workers in nonprofits, when pay and other attributes of employment are the same. To validate or refute their assertion, employment levels in both nonprofit and for-profit organizations must be measured frequently, at least annually and probably quarterly, and in local markets. That measurement program is required to detect differences in labor supply to nonprofit and for-profit employers.

### 1.2 Why are existing sources not adequate?

#### *Economic census*

The Census collects employment and payroll from establishments from *cut-off* samples for years ending in 2 and 7. Estimates are published for nonprofits in a limited number of NAICS sectors. (See Table 1.) Coverage excludes many exempt organizations, notably schools providing K-12 and higher educational services, financial services through credit unions, and mutual benefit insurance organizations. In short, comprehensive numbers that permit comparison of for-profit and exempt entities are not available.

The *Economic Census* can not fulfill the need for employment estimates. The five-year interval between estimates is not timely for a rapidly growing sector. It is less obvious that the cut-off sample has been augmented with administrative records for smaller organizations. No employment is reported for those

organizations when they file Form 990-EZ. (See below.) Augmentation can not increase employment estimates substantially. Lastly, Census fails to indicate the extent to which estimates provided cover charitable organizations and the nonprofit sector as a whole.

### ***Statistics of Income (IRS/SOI)***

Exempt organizations filing information returns (Forms 990, 990-EZ, 990-PF) are sampled, edited, and tabulated to produce annual reports on activities of charitable organizations, organizations exempt under §501(c)(4-9), and private foundations (Arnsberger 2006, Ludlum-Stanton 2006). Reports appear 32 months after the calendar year. Employment reported on Form 990 has been collected since 1998. However, estimates have not been published.

Gaps in the SOI capacity to estimate employment are substantial. Employment is not elicited on Form 990-EZ – so that employment in small organizations is not known. Some §501(c) organizations are excluded from existing samples.

### **Employment reported on administrative records**

Two systems of administrative records collect employment every quarter. Payroll taxes and individual income tax withheld from employees are reported by employer on IRS *Form 941*. Since 2005, most employers are required to report employment for a reference week in the last month of the quarter (the week containing the 12<sup>th</sup> of the month). A similar obligation requires employers participating in the Unemployment Compensation Insurance program (UC) to report payroll and employment for the same reference week (containing the 12<sup>th</sup> of the month) in *each* month of the quarter. Those data are captured by the BLS from the 53 jurisdictions administering the UC system (50 states, The District of Columbia, Puerto Rico, and the Virgin Islands). The BLS processes its information into the *Quarterly Census of Employment and Wages* (QCEW, [www.bls.gov/cew/home.htm](http://www.bls.gov/cew/home.htm)). Nine months after the end of each quarter, BLS publishes employment estimates for the quarter.

The Census Bureau estimates employment for 40 states (<http://lehd.dsd.census.gov/led/led/led.html>, *Quarterly Workforce Indicators*). Those estimates rely on the same UC data collected by BLS.

Neither Form 941 nor UC records contain a reliable indicator for 501(c) and religious organizations. Thus it is necessary to link these records to a definitive list of exempt organizations that is maintained by IRS.

## **2. Linking IRS nonprofit data to employment**

### **2.1 Available data for nonprofit organizations**

The IRS maintains a file of transactions with all businesses in its *Business Master File* (BMF). Nonprofit entities appear in two streams of information

in the BMF: Forms 1023, 1024 – applications for exempt status, and Forms 990, 990-EZ, and 990-PF – annual information returns. Information in the BMF is continuously updated and can be tapped for information as needed. Approved exempt organizations are compiled into a *Registry* that contains all organizations known to be active. The *Registry* is updated monthly. Form 990 elicits employment for the week including March 12, which is also the reference week for Form 941 and UC filings in the first quarter.

### **Classification of nonprofit entities**

Approvals of exempt status are automatically classified by the applicable subsection of §501(c).<sup>1</sup> Industry classes are assigned using two systems: NAICS (used by BLS, Census) and *National Taxonomy of Exempt Entities* (NTEE), used by the IRS in administering exempted organizations. Difference between the two systems is discussed by Lampkin-Boris (2002). Salamon-Deweese (2002) advocate reclassification of NAICS into the International Classification of Non-Profit Organizations (ICNPO).

### **2.2 Linking IRS nonprofits to Form 941**

Most filings of Form 941 occur within the month after the end of each quarter. As most are electronic filings, they appear in the BMF shortly thereafter.

The Federal employer identification number (ein) allows us to link IRS information on nonprofits to Form 941. Three links are of interest: (A) Form 990 linked to Form 941, (B) Form 990-EZ linked to Form 941, and (C) *Registry* to Form 941, for organizations not linked in A or B.

All matches should uniquely link information for the same organization, a 1:1 match. Link A produces two reports of employment that should be identical. Differences provide evidence of nonresponse on Form 990 and on the quality of data capture and processing. Link B establishes employment levels for some small nonprofit organizations. Link C captures organizations that fail to file Form 990/990EZ before administrative deadlines. Link C also detects some organizations that do not file Form 990/990EZ. All links provide industry classification in NTEE.

Matching errors confound the links. Failed matches occur when the Form 941 filed can not be found for organizations in A or B. We expect few failed matches, as the *raison d'être* of the IRS is to administer each business's obligations correctly, and that requires

<sup>1</sup> Most religious congregations are identified in Jones-Johnson (2002). Only religious organizations in the *Registry* (or filing Form 990/990-EZ) are included in the analysis that follows.

validating the ein identity of the reporter. However, truncation of the obligation to file Form 941 induces systematic failed matches that occur primarily in B. Organizations with an annual liability for payroll taxes and withholding of less than \$2500 do not file Form 941. (Those organizations file Form 944 annually to report payroll and income tax withholding for all employees during the prior calendar year, but no employment count is reported.)<sup>2</sup>

Mismatches sometimes occur when ein's are corrupted. The mismatch links information from different entities. At least one systemic problem leads to these mismatches. Forms 941 filed by a trustee, e.g., a bank, may link to a nonprofit that has no employees. The nonprofit mistakenly uses the ein of their trustee to file its own information.<sup>3</sup> In that case, the mismatch attributes employees of the trustee to the nonprofit organization. Mismatches can be detected and removed by editing the matches (David 2007b). After discarding mismatches, matches provide employment counts for nonprofits. (Link C reveals employees for some organizations that do not file Forms 990/990EZ.)

### 2.3 Linking IRS nonprofits to UC records

The link of Form 990, Form 990-EZ, and the *Registry* to UC records differs significantly from the link to Form 941: (1) the universe of UC employers excludes some nonprofit employers; (2) the count of UC eligible employees excludes some employees (e.g., part-time, students, interns in UC participating nonprofit organizations); and (3) UC records are maintained for *establishments*. One organization may have several establishments. NAICS can vary across establishments of a single organization, as their activities vary. For example, Goodwill operates retail stores for donated goods and employment services (counseling and training), distinct NAICS classes.

Links will be labeled A', B', and C' corresponding to the source (Form 990, Form 990-EZ, and the *Registry* as above). All links provide industry classification in both NTEE and NAICS for each establishment. In 2003 about 10% of organizations have matches to multiple establishments, a 1:M match. Link B' identifies fewer organizations and fewer employees than link B because of the substantial exclusion of employees and employers from UC.

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<sup>2</sup> All organizations file Forms W-2 and W-3 every calendar year. Those Forms can be used to count all employees over the year.

<sup>3</sup> Prior to 2003, organizations with no employees did not obtain a unique ein before beginning operations. Other record-keeping problems may contribute to mismatches.

Links to UC produce more matching errors than links to Form 941. In 2003 about 1.2% of UC records contain *invalid* ein's – those that lack 9 digits, contain ciphers that indicate missing, or illegal combinations in the first two digits. Match failures also occur because the UC administrators do not validate ein's as effectively as the IRS. Each state uses its own identifying numbers<sup>4</sup> and incorrect ein's do not compromise state tax collections. Mismatches can link a nonprofit with no employees to an organization with many establishments. In that case large numbers of employees are assigned to the nonprofit. Mismatches were identified and removed for 3.5% of nonprofit organizations (David 2007b). We call links that exclude mismatches an *enhanced match*.

## 3. Estimates from UC records

### 3.1 Matching undertaken

The primary objective of the match is to identify employment in nonprofits that are charitable organizations. We matched a census of charitable organizations that file Form 990/990-EZ for 2003 (NCCS 2003) to the BLS QCEW (links A' and B'). We also found a substantial group of charitable organizations without Forms 990/990-EZ through the Registry (link C'). For nonprofits other than charitable organizations we used the Registry to identify all matches.

### 3.2 Censoring and truncation

Four states refused to supply us with their UC records. Salamon-Sokolowski (2006) estimates the number of UC-eligible nonprofit employees, in millions, in those states for 2004: New York (1.329), Massachusetts (0.474), and Michigan (0.470), and Wyoming (0.037). Those estimates imply that substantial numbers of QCEW records (pertaining to UC-eligible, nonprofit employees) were not available to us.

Geographic censoring of QCEW records affects the partition of organizations into matched and unmatched. Matches are precluded whenever an organization operates exclusively in the four excluded states. In addition, matches are truncated when organizations operate in both included and excluded states. Those organizations will not be linked to all of their establishments.

In the tables that follow, we partition available data into three groups: *included states, matched*; *included states, not matched*; and *excluded states*. A unitary organization with one establishment belongs in only one class. An organization with establishments in both

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<sup>4</sup> Errors in ein also imply that establishments of a single organizations operating in several states can not always be linked. This problem impacts Okolie (2004).

included and excluded states belongs in two classes. We resolve the ambiguity by placing all matched cases together, in *included states, matched*, irrespective of the location at which the Forms 990/990-EZ were filed. Consequently, organizations classified under *excluded states* are a subset of exempt organizations that operate in those states.

### 3.3 Distribution of matches and nonmatches to UC, charitable organizations

Table 2 describes the link of IRS information to the QCEW in our enhanced match for charitable organizations. The total number of IRC 501(c)(3) organizations is 277,015 (Row E, last column). More than 90 percent are organizations filing Forms 990/990-EZ (254,347 Row C, last column).

One-third of Forms 990/990-EZ match the QCEW. That percentage rises to 38% when we compare matches to the total number of organizations with a presence in included states. Row A reveals that only 8% of organizations filing Form 990-EZ match the QCEW. That low rate is consistent with the small expenditures of EZ organizations and the exclusion of many nonprofit workers from UC benefits. Thirteen percent of organizations do not match QCEW and file Forms 990/990-EZ from excluded states.

Row D shows that Forms 990/990-EZ matches are augmented by matches from the *Registry*, increasing matches by 27%. Row F contains an estimate of Form 990/990-EZ matches that could be obtained from excluded states. When estimates are added to actual matches, Form 990/990-EZ matching in the QCEW universe rises to 43% (Row G).

Arnsberger (2006) estimates 9,000 more §501(c)(3) organizations than we find among Form 990/990-EZ's. Our *Registry* match raises the universe in Table 2 to 14,000 organizations greater than estimated in Arnsberger (2006). These differences are far beyond sampling errors. One hypothesis is that the *Registry* match captures some large organizations that do not file Form 990 within two years of the end their fiscal year. Another is that some organizations are not required to file and participate in the UC system. Larger religious organizations are an example. At the other extreme, many small organizations not filing Forms 990 would neither have employees nor be liable for UC taxes. Thus *Registry* matches are a puzzle.

### 3.4 Employment estimates, charitable organizations

Table 3 presents employment in charitable organizations, displayed by the source of the employment information and the type of match (A', B', C'). The number of organizations is repeated from Table 2 in the leftmost column as a guide to the reader. The column headed *establishments, raw* shows the

number of establishments operated by matched organizations. The column headed *establishments, weighted* indicates the extent to which *invalid ein's* conceal presence of matching establishments (David 2007a). The remaining columns pertain to estimates of employment.

The subtotal row sums the Form 990/990-EZ filers in included states (A' and B'). The row *available states* adds matches from the *Registry* to organizations in included states. The total row counts both matched and unmatched employment in all states. As no QCEW data are available for excluded states, totals can not be calculated for QCEW employment or establishments.

The IRS column labelled *employment, raw* contains reports from Form 990. The top row indicates that IRS reports on Form 990 exceed raw QCEW employment by 50,000 (0.74%) for matched records. That difference has two principal sources: (1) workers not covered by UC do not appear in QCEW; and (2) workers reported on the Form 990 include workers in excluded states. Multi-state organizations that operate in both excluded and included states will show more employees in the first row than their QCEW report which excludes some states.

The column *Imputed* shows more employment than *raw* because we substituted QCEW raw employment for zeros on the Form 990's that failed to report employment. Attribution of QCEW employees increases aggregate employment by 633,000 (9.3%). Note that this imputation is too small because many part-time workers and student workers are not counted in QCEW. In addition, employees of matched organizations that have establishments in excluded states are understated to the extent that the organization has employees in the *excluded* states. (David (2007b) reports industry distribution for these matches and provides details on removing mismatches.)

Additional employees should be imputed to unmatched Form 990 records (in 2<sup>nd</sup> row and 990, *exc.*), where employment is presumably also unreported. Ratio estimation of the imputation is inappropriate as a proportion of unmatched organizations are nonemployers. A statistical model that encompasses both the decision to employ workers and the number employed is needed to impute employees to the unmatched records.

The third row displays matched Form 990-EZ. No employment information is elicited on these records. Weighting QCEW employment makes imputed numbers more representative of the universe, while unweighted employment understates levels in the exempt sector (David 2007a). Weighted Form 990-EZ

employment is transferred to the *Imputed* column in the third row. The low rate of matching for Form 990-EZ in Table 2 confirms that smaller organizations are poorly covered. The number of employees imputed also omits part-time employees and interns that are excluded from coverage.

Matching QCEW to the *Registry* identifies 22,668 organizations that did not file Form 990/990-EZ (Row 6). The *Registry* organizations contribute a weighted count of 32,749 establishments and weighted employment of 1,777,000. Weighted employment from the *Registry* is added to the count from Forms 990/990-EZ in the column labelled *augmented*. (The imputation here is identical to that undertaken for link B'; however, the population covered by the match can not be as rigorously tested for mismatches.) A considerable part of the 1.8 million may be employed in large, late-filing organizations. That is suggested by the relatively large numbers of establishments associated with the *Registry* matches. The character of the remainder of the organizations that we identify by *Registry* matches is unknown.

In the total row, covering all states, *augmented* employment is 11.7 million (26%) higher than the raw count of Form 990 IRS employment. The difference lies in two enhancements to the Form 990 data: (A) augmentation adds the 1.8 million employees not represented by Form 990 organizations in included states; and (B) imputation adds the 0.6 million imputed employees unreported to IRS on Form 990, again in included states.

Three other aspects of employment aggregates are noteworthy. First, Form 990 counts 1.0 million workers in organizations that file from included states and do not appear in the QCEW. This count understates employment, as nonreporting of employees is likely to occur at a rate no less than for matched Form 990's. Imputation of the missing employees will be significant, but less than for the matched Form 990 filers of reported employment who, on average, have more employees. Second, UC coverage for Form 990-EZ filers is small. We estimate that a quarter of Form 990-EZ filers are employers and only 8% match QCEW. (Employment in small organizations must be elicited directly from a revised Form 990-EZ.) Third, extrapolation of imputed employment, or modeling of an employment imputation, would increase employment numbers in excluded states by roughly 8 percent (the ratio of imputed to raw in the subtotal row).

### 3.5 Employment in exempt organizations, not charities

Linking the *Registry* to QCEW identifies 1.6 million employees (Table 4) in exempt organizations that are

not §501(c)(3). The count includes some organizations with minimal social product and restricted membership (e.g., social clubs), others provide a significant social product for an open membership (e.g., credit unions).

The total employment identified in *all* exempt organizations, 13.3 million, substantially exceeds both the 10.4m estimate from the *Economic Census* (2002) and the 9.4m estimate made for a select group of NAICS industries by Salamon-Sokolowski (2006) for 2004.<sup>5</sup> Part of the difference is due to differences in the reference dates and the universe. Our 11.7m estimate for charitable organizations (most comparable to the 9.4m above) implies substantial deficiencies in the counting of employees in that policy-relevant sector.

## 4. Refinements for future Form 941 matches

### 4.1 Employment for small organizations

To rectify undercounting of employment in small organizations, matching to Form 941 must be supplemented. IRS Form W-2 records all employees and payroll over a calendar year. Matching the residual of unmatched Forms 990/990-EZ to W-2 identifies employers in that group. However, employment on W-2 is not comparable to employment reported on Form 941. The latter counts employment during a specific payroll period. W-2 elicits employment at any time during the year. Flux in employees over a year imply that W-2 counts of employees will exceed the number of employees in the March reference week on Form 941. To combine the two employment counts, the two measures must be calibrated.

### 4.2 Preliminary and timely estimates

Matching Form 990/990-EZ information for a particular reporting year to Form 941 entails a lag that is comparable to SOI's 24-month lag in compiling Forms 990/990-EZ. That lag can be reduced by making a preliminary estimate. All organizations that existed two years ago and are currently operating represent most of the universe. Thus the most recent Form 990/990-EZ available could be matched to Form 941 filed for the current quarter. This would produce a partial match (A'' and B'') that is less inclusive than the matches tabulated here. New organizations created within the last two years can be identified by matches to the *Registry* (David 2005). Nonfiling organizations can be identified in the same way. Thus, the *Registry* match (C'') for nonprofit organizations not identified by past Form 990/990-EZ completes a representation of the current nonprofit universe. Matching identifies

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<sup>5</sup> The organizations selected include *civil society*, largely charitable organizations. See Salamon and Dewees (2002).

the appropriate subset of Form 941 to estimate current employment in nonprofit organizations.

The preliminary estimate can be revised as Forms 990/990-EZ become available. Some additional matches and mismatches will be identified.<sup>6</sup> When the SOI sample is complete, both matched Form 990/990-EZ and *Registry* matches can be used to give comprehensive employment information about charitable organizations and other §501(c) organizations. Revised estimates of employment can be published at the same time as current estimates of other characteristics of nonprofit organizations.

### 5. Conclusions

Research matching the BLS QCEW to IRS Forms 990/990-EZ and the IRS *Registry* of exempt organizations demonstrated that existing counts of nonprofit employment from UC records cover only part of the employer universe and understate employment among covered employers. One million workers reported on Form 990 did not match UC records within the 49 jurisdictions that we studied. Two-thirds of employers filing Form 990-EZ did not match UC records; while such employers have few employees, a full count could easily be three times the 10,000 employees identified from UC records.

The weakness in Form 990 employment information is item nonresponse. Substituting UC employment for missing reports adds 9%, 633,000, to reported employees in included states. Additional employment, corresponding to false negative employment, can be imputed to unmatched Form 990 and possibly Form 990-EZ.<sup>7</sup>

Employment among nonprofits that are not §501(c)(3) adds 1.6 million to the 11.7 million that we estimate for §501(c)(3). The total, 13.3 million, is much larger than both *Economic Census* and past estimates from UC. This paper demonstrates that more comprehensive measures of charitable employment can be estimated with modest additional effort.

The methodology used here can be applied to a match between Form 941, Form W-2, and the nonprofit sector (identified by past year Form 990/990-EZ and the *Registry*). That match can produce useful *preliminary* estimates of employment within 9 months of the employment report (well before Forms 990/990-

EZ are filed for the current year). It will correct for the partial count of employment elicited by Forms 990/990-EZ. An important addition to our understanding of nonprofit operations in the US will result from this match in the future.

Our experience with ein errors indicates that estimates must encompass procedures to overcome errors associated with failed matches and mismatches. Matching error is present whenever the population of nonprofit organizations is identified from the IRS administrative records and the estimate of interest lies in another measurement system. Lastly, when IRS classifies all organizations on the *Registry* by 501(c) subsection, estimates can precisely allocate employment among charitable and other organizations in the nonprofit sector.

### Acknowledgements

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At BLS Amy Knaup and Merissa Piazza advised me and certified tables for disclosure protection. Rick Clayton and David Talan reviewed my papers. Access to BLS data through its secure enclave is a major resource for scientific research.

The views and estimates presented are not endorsed by the BLS and do not constitute official statistics of that agency or the IRS/SOI.

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<sup>6</sup> Since Forms 990/990-EZ accrue to the BMF continuously, potential exists for updating available information with early filers and creating several revisions of preliminary estimates.

<sup>7</sup> Item nonresponse among unmatched organizations requires modeling the choice to employ workers and the level of employment for each employer.



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**Table 1. Nonprofit employment reported in Economic Census 2002 (in 000's)**

Naics classification	Employment			Establishments		
	A Exempt	C All	D Ratio: A/C	E Exempt	G All	H Ratio: E/G
61	120	431	0.28	12	50	0.24
62	7,980	15,048	0.53	136	703	0.19
71	1,363	1,847	0.74	49	109	0.45
813	936	936	1.00	11	11	1.00
Total						
exc. 813	9,463	17,326		197	862	
Inc. 813	10,400	18,262		208	874	

**Table 2. QCEW matches to Forms 990, 501(c)(3) organizations, 2003q1**

	Included states		Subtotal	Excluded states	Total
	Matched?				
	Yes	No			
A <b>Form 990-EZ</b>	4,243	42,166	46,409	6,733	53,142
proportion of Forms 990	0.080	0.793		0.127	1.000
B <b>Form 990</b>	79,045	95,294	174,339	26,866	201,205
proportion of Forms 990	0.393	0.474		0.134	1.000
C <b>Subtotal NCCS Census</b>	83,288	137,460	220,748	33,599	254,347
proportion of Forms 990	0.327	0.540		0.132	1.000
D <b>Master QCEW matches</b>	22,668		22,668		22,668
augmentation rate			0.102687		
E <b>TOTAL</b>	105,956	137,460	243,416	33,599	277,015
proportion of total	0.382	0.496		0.121	1.000
F <b>Estimated matches</b>	<i>12,797</i>	<i>20,802</i>		0	
G <b>UNIVERSE</b>	<i>118,753</i>	<i>158,262</i>	277,015		277,015
proportion of universe	<i>0.429</i>	<i>0.571</i>	<i>1.000</i>		<i>1.000</i>

**Table 3. QCEW and Form 990 Employment: 2003, 501(c)(3), in 000's**

Source	Match?	Orgs.	QCEW emp.		IRS employment		
			Raw	Wtd.	Raw	Imputed	Augmented
990, inc.	Yes	79	6,780	<i>6,930</i>	6,831	<i>7,463</i>	<i>7,463</i>
	No	95			1,005	1,005	1,005
990-EZ, inc.	Yes	4	10	<i>10</i>	NA	<i>10</i>	<i>10</i>
	No	42					
<b>Subtotal</b>		220	6,790	<i>6,940</i>	7,836	<i>8,478</i>	<i>8,478</i>
<b>Registry</b>	Yes	23	1,724	<i>1,777</i>	NA	NA	<i>1,777</i>
<b>Available states</b>		243	8,514	<i>8,717</i>			<i>10,255</i>
990, exc.		27			1,485	1,485	1,485
990-EZ, exc.		7					NA
<b>Total</b>		277	NA	NA	9,321	<i>9,963</i>	<i>11,740</i>

*Italics* reflect model-based weighting of QCEW and substitution of QCEW for missing employment reports to IRS.

Table 4 is available on request from the author.

**Urban Institute Report #2**

**Distorted measures of employment in charitable organizations:  
Causes, impact, and remedies**

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## Abstract

**Keywords:** Charitable organizations, employment, administrative records

Public sector failures lead to a large understatement of employment in charitable organizations. Multiple forces lead to this understatement. Partitioning private business into charities, other exempt organizations, and for profit business has a low priority in Federal Statistical Agencies. Regulatory failures in IRS oversight of exempt organizations compromise available statistics – the count of active organizations, data on employment, coverage of available employment reports, and consistency in its reporting. The incentive for IRS to regulate exempt entities is negative as the activity does not generate net revenue. Because exempt organizations constitute a small part of private businesses, publication of estimates for their establishments is limited by the imperative not to disclose proprietary information. Finally, regulation of burden in completing government forms leads to peculiar censoring of data within the population of exempt entities.

This analysis demonstrates that existing published estimates of employment in charitable organizations is understated. We link IRS information returns to the BLS/QCEW. A substantial proportion of employers can not be matched. Employment on IRS returns contains substantial nonresponse. Imputation of QCEW employment to matched organizations and augmenting the available census of IRS returns with employment in exempt organizations that are not covered produces aggregates that are substantially larger than the published *Economic Census* for 2002.

Understated employment can be overcome by a combination of more sophisticated imputation of information returns and matching of IRS information to records of payroll tax submissions, IRS/Form 941.

## 1 Importance of nonprofit employment

Charitable organizations constitute about 5% of the corporate business sector. They are private corporations and associations exempted from taxation by the Federal government under *Internal Revenue Code* (IRC) §501(c)(3). State and local codes often reduce sales tax liability and property taxes for charitable organizations (Brody 2002). Gifts to exempt *charitable organizations* substantially reduce tax burdens of individual donors.<sup>1</sup>

Charitable organizations operate in a broad range of industries -- from the arts, advocacy, and social assistance to education, training, and hospital services to research and international services. Labor is the largest input to the sector. Wages paid are likely to be less than in for-profit companies.<sup>2</sup>

Good measures of the number of employees in charitable organizations, classified by industry subsectors, are a first step to understanding the value of these organizations to the economy. This paper demonstrates that estimates of employment can be more timely and more comprehensive than understated estimates available in Census publications.

## 2 Sources of employment measures

### 2.1 Published estimates of exempt sector employment

The *Economic Census* publishes employment information on private business entities that are exempted from corporation taxes every five years. Exempt includes charitable organizations as well as neighborhood associations, clubs, labor unions, credit unions, and cooperatives. Three NAICS sectors are classified by exempt status of the organization (*Educational services*, 61; *Health Care and Social Assistance*, 62; and *Arts, Entertainment, and Recreation*, 71). Sector 61 excludes elementary and secondary schools and colleges and universities. One additional

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<sup>1</sup> Tax expenditures due to deductions for education, health, and social services are estimated at more than \$55 billion in the *2008 Budget of the United States* government (Table 19-3).

<sup>2</sup> A plausible hypothesis is that workers in nonprofit organizations derive more satisfaction from their employment than workers in for-profit employment; they are willing to work at wages less than the wage paid in comparable for-profit positions [Helliwell and Huang 2005].

subsector, *Religious, Grantmaking, Civic, Professional, and similar Organizations* (813), is dominated by exempt organizations. Many are charitable organizations; some are not.<sup>3</sup>

Employment reported for those (sub-) sectors totals 10.4 million (Table 1). That statistic is not only incomplete, it is timely only once in five years. Further it mixes employment of *charitable organizations* with employment of other exempt organizations. More extensive tabulation of charitable organizations is probably foreclosed by the disclosure review procedures used by the *Economic Census*.<sup>4</sup>

## 2.2 Unpublished microdata containing employment reports

Regulations promulgated for IRC 501(c) organizations stipulate that most must file annual information returns.<sup>5</sup> Organizations averaging revenue more than \$25,000 must file; religious congregations are excused from filing information returns. However, religious organizations contracting to provide services funded by the Federal government also file information returns. Returns of organizations with more than \$100,000 of revenue elicit employment in the week of March 12. Thus, employment of larger organizations can be estimated. (Charitable organizations can be distinguished from other exempted organizations.)

The IRS count of employee is incomplete. What proportion of sector employment is included? How well is employment reported in different industries? Partial answers to these questions are provided in this report.<sup>6</sup>

Microdata from these returns are accessible through the Urban Institute *Dataweb*. A census of all Form 990 and Form 990-EZ filed by charitable organizations is available for 1999-2003 (*GuideStar-NCCS National Nonprofit Research Database*, ver. 1 [1999-2003], cited as NCCS:<year>). Form 990 elicits the number of employees; Form 990-EZ does not.

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<sup>3</sup> Most religious congregations included under this NAICS sector do not appear in any other official statistics of the US.

<sup>4</sup> That is ironic, as exempt organizations are required to file information returns for public scrutiny.

<sup>5</sup> The returns refer to fiscal years. Fiscal years ending after 1 December 2002 and before 1 December 2003 will be filed on the Form 990 for the year 2002.

<sup>6</sup> Answers to this question may encourage the Statistics of Income Division of IRS to publish employment estimates in its annual statistical report on nonprofit organizations (Arnsberger 2006).

### 3 Linking public IRS records to other employment data

Matching any two datasets entails five steps: a) Finding a common identifier, b) determining the multiplicity of the matches, c) assessing the extent of matching errors, d) correcting the match to reduce bias from failed matches, and e) removing mismatches from the analysis files. We follow these steps in linking IRS information returns below.

#### 3.1 Gains from linking IRS nonprofit information returns to other sources

Employment is reported on three administrative records: IRS Form 941, the BLS *Quarterly Census of Employment and Wages (QCEW)*, and IRS W-2. The QCEW is derived from employer reports to state Unemployment Compensation (UC) agencies. Form 941 and QCEW both contain reports of employees on payroll in a particular month. The March reference month for those two series is identical to the reference month for employment elicited on Form 990.

The identifier common to Form 941, *QCEW*, Forms 990/990-EZ, and the IRS *Registry* is the Federal Employer Identifying Number, or ein. Multiple establishments in the *QCEW* match some IRS ein's. In most cases only one establishment matches. The IRS files contain one record for each ein.

Errors in ein's emanate from the employer who may enter an incorrect ein or omit an ein, and from the state and Federal administrative agencies that process the ein. An omitted ein leads to a match failure. An incorrect ein leads to a match failure or a mismatched pair of records.

The candidates to link to nonprofit returns vary in coverage and reporting period:

(a) Form 941, filed quarterly, includes most employees whose wages have been withheld for accruing income taxes or Social Security payroll taxes. Employers that owe less than \$2500 annually for withholding and payroll taxes do not file Form 941. (They file Form 944 at the end of the year.) Thus employers of few, or part-time, employees may not file Form 941.

(b) QCEW covers many, but not all, Form 941 employees. (It also includes a few of the employers who file Form 944.) However, QCEW excludes nonprofit employers with less than 4 employees in some states. QCEW excludes some employees – part-time workers, students, and interns – in some states. One or both exclusions apply in about 30 states.

QCEW 'breaks-out' organization employment into employment at worksites dispersed over different counties. For larger organizations multiple worksites in different states can be identified. As services and products of exempt organizations are often tied to local sites, this

geographic information is an extremely valuable addition to the Form 990/990-EZ report (Salamon-Sokolowski 2005].

(c) IRS W-2 reports total employment for a 12-month reference period. That is, every employee receiving wages in the prior calendar year will be counted. Multiple job-holders and employees switching jobs during the *year* will be counted twice. Multiple job-holders and some employees switching jobs during a *month* are counted twice on the QCEW and Form 941. While W-2 and Form 941 contain payroll information for different reporting periods, combining the four Forms 941 filed during a calendar year produces payroll comparable to Form W-2. Monthly employment for employers that do not file Form 941 might be estimable from the available annual information.

In conclusion, a match of Forms 990/990-EZ to IRS Form 941 for March will yield a larger count of nonprofit employees than the QCEW. The QCEW match gives insight to the distribution of multi-establishment employment across worksites.<sup>7</sup>

### **3.2 Losses from linking nonprofit information returns to other sources**

Any errors in ein's being matched reduce the quality of matched data. Errors in identifying numbers arise from reporting errors by filers, from changes in the legal organization that entail a new identifier for continuing (perhaps expanded) activities, and from failures to maintain correct identifiers in the two record systems.

Errors in identifiers have two consequences: failed matches and mismatches. An incorrect identifier in the IRS file leads to a failed match when no corresponding identifier exists in the second data source, and vice versa. Mismatches result when the incorrect IRS identifier matches the identifier of a disparate organization in the second data source, and vice versa. The proportion of nonprofit organizations is small relative to the populations in the QCEW and Form 941 universes, so mismatches are most likely to relate information about taxable organizations to the exempt organization. Failed matches reduce the coverage of statistics based on both records. Mismatches badly distort statistics. Both levels of the matched data and correlates of those data are distorted (Scheuren-Winkler 1997). For example, when employment is imputed to Form 990-

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<sup>7</sup> As we describe later, non-filing employers can be identified from the IRS *Registry* of exempt organizations, an extract from the IRS *Business Master File*.



EZ from Form 941, any difference in the mean employment of exempt organizations and the mean employment of mismatched employers will bias the imputed mean.

#### 4 Matching QCEW and IRS information on exempt organizations

Our investigation matches IRS public information on nonprofits to the QCEW. Most estimates refer to matches and employment for March, 2003.

##### 4.1 Joining QCEW and IRS information

Matching Forms 990/990-EZ, the *Registry*, and the *QCEW* yields eight outcomes. Outcomes that link *QCEW* to IRS information are indicated by *m* in the text table below. Unmatched records are indicated by “\*”. Outcomes 1-5 are useful. Outcome 1 gives the most complete information since all three data files match. (Outcome 3 occurs primarily as organizations whose application for exempt status is pending, file Form 990/990-EZ.) Outcomes 2 and 4 do not match *QCEW*, but information on Forms 990/990-EZ is informative.

Record system	Outcomes							
	1	2	3	4	5	6	7	8
Forms 990/990-EZ	m	*	m	*				
<i>Registry</i>	m	*			m	*		
<i>QCEW</i>	m		m		m		*	

Outcomes 6-8 are uninformative. The function of the *Registry* is to identify active exempt organizations. Unfortunately, organizations that are inactive or defunct sometimes linger for a substantial time before they are identified and removed. Thus unmatched *Registry* records (outcome 6) overstate the number of active unmatched organizations. Unmatched *QCEW* records (outcome 7) include nonprofit entities, but they can not be identified reliably.<sup>8</sup> Some nonprofits are not UC liable and do not file information returns (outcome 8). Neither IRS nor *QCEW* records afford insight into this group.

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<sup>8</sup> Employers are asked to identify tax-exempt status, but the information is not well-reported.

Outcomes 1-4 include all exempt organizations filing Forms 990/990-EZ and processed into the NCCS:1999-2003.<sup>9</sup> They constitute a census of operating charitable organizations, covering all states. Unmatched Forms 990/990-EZ (Outcome 2 and 4) provide information about organizations that do not fall in the QCEW universe. Understanding the unmatched cases is a lever that allows us to estimate employment outside the UC system and the proportion of organizations that operate without paid employees, i.e. nonemployers.

Outcome 5 matches the *Registry* to three types of organizations: exempt organizations other than charities (exempted under subsections other than 501(c)(3)), private foundations, and operating charities failing to file timely returns.

Each matched Form 990 reveals whether the organization failed to report employment on line 90(b), a false negative (FN). Each matched Form 990-EZ and *Registry* record reveals the number of employees covered by the UC system at each worksite. No matches provide any information on employees excluded from UC coverage.

## 4.2 Assessing matching errors

### 4.2.1 Failed and invalid matches

Some failed matches can be detected by *invalid ein's*. Those ein's have less than the required nine characters or they have ciphers that indicate the ein is unknown. We scanned both the *Registry* and the *QCEW* for invalid ein's. The *Registry* contained less than 500 or 3/10,000 invalid ein's. Though the *Registry* contains ein errors, we regard it as a "gold standard". Less than 90 failed matches arise when it matches a population of less than 300,000 organizations.

The *QCEW* contained an average of 1.7% invalid ein's in the years 1999-2003. These invalid ein's were not randomly distributed across the 35 million records that we scanned. The probability of invalid ein's was higher in establishments with few employees than elsewhere. The probability varied substantially over the 49 jurisdictions (46 states, The District of

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<sup>9</sup> Operating charities and public foundations exempted under 501(c)(3) are included. Coverage is limited by cut-off of data processing before late returns are filed, long after they are due to the IRS.

Information from Forms 990 for other organizations is available from *NCCS Core File* [year] and *NCCS Private Foundation File* [year] at <http://nccsdataweb.urban.org>.

Columbia, Puerto Rico, and the Virgin Islands) in our universe. Three states had probabilities over 0.03; six had probabilities less than 0.005.

We created weights for the *QCEW* that increase counts of establishments and the number of employees. Weighting offsets downward bias of unweighted counts (David 2007).<sup>10</sup> Weights on the *QCEW* were transferred to all matching IRS records. They are applied to Form 990-EZ and *Registry* matches in the estimates below.

Additional match failures occur because valid ein numbers are corrupted in the process of filing and transmitting the tax-related reports that are the basis for the *QCEW*. Digits can be transposed, duplicated, or erroneously entered. We do not know what order of magnitude to assign to this problem.

#### **4.2.2 Removing mismatches -- Forms 990/990-EZ**

Before appropriate estimates could be made, matches were scanned for evidence of mismatches. The legal name of the organization and its industry class were critical information for detecting mismatches. Forms 990/990-EZ and the *QCEW* use different industry classifications, the *National Taxonomy of Exempt Entities (NTEE)* and NAICS respectively. These classifications are relatively similar at the sector level (Appendix A). In examining matched records we discovered several pathologies. Some parent-teacher organizations were associated with large numbers of establishments in banks. Some private organizations awarding fellowships and scholarships were associated with employee counts for state university systems. And some private nonprofit entities were associated with school systems or governments. In many of these cases the name on the Form 990 was substantially different than the name on the *QCEW*. The pairing of large numbers of establishments to the nonprofit organization was also suggestive of mismatching. Hundreds of establishments exist for only a few of nonprofit charitable organizations. Because Forms 990/990-EZ contain more information than the *Registry*, the procedure for removing mismatches of Forms 990/990-EZ differs from the procedure applied where the *Registry* matches *QCEW* and no Form 990 exists.

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<sup>10</sup> Salamon-Sokoloweski (2005) did not weight their estimates from matching the *Registry* to *QCEW* for the selective character of invalid ein's.

We test the relationship between payroll reported to the *QCEW* and nonprofit expenditures on Form 990/990-EZ. If first-quarter establishment payroll exceeds 20 percent of total expenditures for the organization, the establishment-organization link is suspect. All links between establishments and organization with *any* suspect links to the *QCEW* were severed. The logic for this procedure incorporates two assumptions: A) Most organizations with a *QCEW* record for the first quarter of the year were in operation for a whole fiscal year. B) Annual compensation for the nonprofit is at least 20 percent less than total expenditures for the fiscal year. Prorating annual compensation levels to the first quarter, we expect that one-quarter of eighty percent of annual expenditures is a reasonable upper bound for first quarter compensation.

The test identified 2,564 organizations as suspect in 2003. The total of matched Forms 990/990-EZ was 85,852 prior to testing for suspect matches. Failing the test caused 3.0 percent of tentatively matched organizations to be recoded as unmatched. The suspect matches were dominated by links between tiny organizations and entities classified as NAICS 522 (credit intermediation) or NAICS 5412 (Accounting, tax preparation, bookkeeping, and payroll services). Three-quarters of the establishments involved with suspect links were tied to entities in those NAICS classifications.

Over the five years, 1999-2003, an average of more than 8%, or 11,000, *establishments* matched to Form 990/990-EZ are suspect. This average is low, as information on total expenses was missing in 4% of the 1999 Form 990's and 7% of the 2003 Form 990's. Mismatching associated with organizations filing Form 990-EZ is astronomically larger than for organizations filing Form 990. Figure 1 presents the rate of mismatched establishments separately for Form 990 and Form 990-EZ. Over 50% of establishments linked to Form 990-EZ proved to be suspect in years 2000-2002 where expense data were almost universally available.

Following the removal of suspect matches to the *Registry* (next section), we re-examined Forms 990/990-EZ matches to determine whether any NAICS 52 (Finance and Insurance) organizations passed the expense test. 15 organizations were identified in the sector and delinked from *QCEW*. The count of mismatched Forms 990/990-EZ increased from 2,564 to 2,579.

### 4.2.3 Removing mismatches – Registry matches, no Forms 990/990-EZ

*QCEW* matches to the *Registry* contain no information on organization expenses.<sup>11</sup> We investigated two classes of matches: Organizations that are charitable and exempted under section 501(c)(3) of the *IRC*, and organizations whose 501(c) subsection was unknown. The first class is more extensive than the operating charities for which we have Forms 990/990-EZ. Private foundations and trusts are included. The 3,500 organizations with subsection unknown are likely to include a majority with 501(c)(3) activity.<sup>12</sup>

*Registry-QWEW* matches reveal industry and name of the organization on both records. NAICS signals many mismatches. Organizations matched to NAICS 52 (finance and insurance) appear to be suspect, as they included multiple establishment links of banks to parent-teacher organizations, paralleling the most egregious mismatches identified among the Forms 990/990-EZ. We excluded all public sector, business associations, and labor unions (NAICS 92, 81391, 81393) as they are not generally §501(c)(3). We excluded broader classes than with Forms 990 because organizations with unknown subsection could be 501(c)(4) or (9), not relevant to our analysis of 501(c)(3). A total of 1210 organizations with matches to the *Registry* were declared suspect, representing 5.1% of the 23,878 tentatively matched organizations.

Taken together the delinked organizations are 3.5% of tentative matches. Estimates of employment that include identified mismatches would be wildly overstated.

Lastly, in cases where the subsection was unknown, we surmise that some organizations are not charitable organizations. Organizations linked to NAICS subsectors including the public sector, business associations, and labor unions are unlikely to be operating charitable organizations. Organizations in all of these sectors were deemed *not 501(c)(3)*, and excluded from the *501(c)(3)* universe. Table 2 describes the division of subsection “NA” between those tabulated with 501(c)(3) and those excluded. It also shows that less than 500 501(c)(3) were reallocated out of that class. The editing procedures described produced an *enhanced match* that we discuss below.

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<sup>11</sup> Only matches to the *Registry* where no Form 990 information is in the Forms 990 database are considered here. Such matches include organizations exempted under many subsections other than 501(c)(3).

<sup>12</sup> 501(c)(3) is the dominant exempt group sampled by the IRS. Arnsberger (2006).

### 4.3 Structure of matched and unmatched data

#### 4.3.1 Available data

Matched data bring together information defined by different measures and collected from different universes. Important conceptual differences are displayed below.

Attribute	Form 990	Form 990-EZ	QCEW
Employment	Elicited from all	Not collected	Employment collected. Excludes: Part-time workers of nonprofits in all but 19 states, and students working for school, student nurses. Interns (some states)
Compensation	Detail on wages, benefits and payroll taxes	All employment related payments	Payroll
Industry classification	NTEE	NTEE	NAICS
Universe	Exempted entities	Exempted entities	Employers liable to pay UC benefits
Minimum threshold for inclusion	3-yr. avg. revenue >\$100,000	\$25,000 < 3-yr. avg. revenue <\$100,000	1+ employee working more than 20 weeks in a calendar year, US standard
Excluded states (this investigation)	None	None	MA, MI, NY, WY
Excluded entities	Most religious	Most religious	Employers with 1-3 workers (29 states), some religious organizations, small agriculture employers, some local governments
Periodicity	Fiscal year	Fiscal year	Calendar quarters

The measure of employment is critical to our investigation. Form 990 elicits March 12 employment; Form 990-EZ does not. All workers on the payroll should be counted. *QCEW* does

not count part-time employees in many states; students at work in their schools, student nurses in hospitals, and interns are excluded in some states.

Industry is classified by the *National Taxonomy of Exempt Entities* (NTEE) on Forms 990/990-EZ and the *Registry*. Industry is classified by the NAICS on the QCEW.

Average revenue over the last three years determines which IRS form is used. A few organizations file returns because they are required to do so by Federal contracting rules, or because they have provisional permission to operate as a charitable organization or association.

#### 4.3.2 Censoring pertinent to the QCEW universe

Exclusion of nonprofit *employers* with 1-3 workers in 29 states, and part-time *employees* of nonprofits in 33 states (largely, but not the same as the previous states) drastically reduces coverage of the *QCEW* for small organizations.

*Exclusion of states.* Four states (MA, MI, NY, WY) did not release their information for this study. Those states provide the BLS with QCEW information for all periodic estimates in the BLS publication program. BLS could tabulate nonprofit UC employees directly for the entire US universe from its QCEW data. Geographic censoring of QCEW records affects our partition of organizations into matched and unmatched. Clearly, matches are precluded whenever an organization operates exclusively in the four states that declined to participate, indicating that substantial numbers of UC eligible nonprofit employees were not available to us.<sup>13</sup> In addition, some matches are truncated.

*Exclusion of establishments.* Organizations that operate in both included and excluded states will appear with fewer matching establishments than their full complement of worksites. For example, an organization operating in the New York metropolitan area will match to its NJ and CT establishments; it will not match to any NY establishments. Some insight to the extent of this problem comes from the proportion of matched organizations that have multiple establishments.

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<sup>13</sup> Nonprofit employment in NY, MA, and MI are ranked as 1, 8, and 9 by Salamon and Sokolowski (2006) in 2004. WY employment ranks 50 out of 51 jurisdictions. The authors estimated MA and WY employment. The number of nonprofit employees, in millions, in those states is: New York (1.329), Massachusetts (0.474), and Michigan (0.470), and Wyoming (0.037).

*Truncated multi-establishment organizations.* Nearly 9/10 organizations matching the QCEW and filing Form 990 have only one establishment in one state.<sup>14</sup> Four percent of Form 990 filers operate in several states. These estimates of multi-establishment rates are lower bounds, as we can not count worksites in excluded states. Virtually no organization that files Form 990-EZ has more than one establishment. See Table 3. Registry matches include nearly half as many multi-establishment organizations as Form 990 filers.<sup>15</sup>

This background about multi-establishment organizations colors the meaning of a partition of the data that we use repeatedly.

## 5 Learning from the matched data

### 5.1 Classifying matched organizations

The universe is partitioned into three groups: *included states, matched; included states, not matched; and excluded states*. An organization with one worksite belongs in only one of these classes. An organization with worksites in both included and excluded states could be located in two of the three classes. We resolve the ambiguity by placing all matched cases together, in *included states, matched*, irrespective of the location at which the Forms 990/990-EZ were filed. As a consequence, organizations classified under *excluded states* are a subset of exempt organizations that operate in those states. A few more complex organizations that operate in excluded states will have establishments in *included states, matched* and will be tabulated under that heading. Logically, those organizations include some whose activity is concentrated in included states; others, whose activity is in concentrated in excluded states.

Table 4 describes the link of IRS information to the *QCEW* in our *enhanced match* for organizations. Two features of the table are highlighted by boxes:

- Column 1, *matched to QCEW? Yes*, includes all IRS records that match the QCEW;

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<sup>14</sup> Almost without exception, if the organization operates one establishment, it files in the same state where it operates. Organizations may operate in states different than the state in which Form 990 is filed. This may or may not connote multiple worksites. For example the accounting firm for the organization may file the Form 990 in DC, but the organization has a single worksite in MD.

<sup>15</sup> Two circumstances could lead to this finding. *Registry* matches include some large organizations that have not yet filed. Alternatively, some mismatched organizations have not been deleted. No evidence for either of these alternatives is available.



- Rows A – C include all organizations for which we have Forms 990/990-EZ.

The intersection of the two boxes gives the most information. Outside the intersection row D lacks Form 990 data and the column *excluded states* lacks QCEW data. The total number of IRC 501(c)(3) organizations is 277,015 (Row E, last column). More than 90 percent are organizations filing Forms 990/990-EZ (254,347 Row C, last column).

One-third of Forms 990/990-EZ match the *QCEW*. That percentage rises to 38% when we compare matches to the total number of organizations with a presence in included states. This larger percentage is closer to the yield of matches that could be obtained were all the states in the US included.

Row A reveals that only 8% of organizations filing Form 990-EZ match the *QCEW*. That low rate is consistent with the small expenditures of EZ organizations and the exclusion of many nonprofit workers from UC benefits.

Thirteen percent of organizations do not match *QCEW* and file Forms 990/990-EZ from *excluded states*. The column labeled *excluded states* excludes multi-state organizations operating establishments in *included states*. For example, an organization that has an establishment in CA and files Form 990 from its headquarters establishment in NY will be included in the column labeled *Yes* because the CA establishment matches the *QCEW*.

Row D shows that Forms 990/990-EZ matches are augmented by matches from the *Registry* increasing matches by 27%. Row F contains an estimate of Form 990/990-EZ matches that could be obtained from excluded states.<sup>16</sup> When estimates are added to actual matches, Form 990/990-EZ matching in the QCEW universe rises to 43% (Row G).

Arnsberger (2006) estimates 9,000 more §501(c)(3) organizations than we find among Form 990/990-EZ's. Our *Registry* match raises the universe in Table 4 to 14,000 organizations greater than estimated in Arnsberger (2006). Both differences are far beyond sampling errors. A cutoff date for processing Forms 990 into the NCCS database may be responsible for shortfall of §501(c)(3) filers. The excess produced by *Registry* matches has quite different sources. The *Registry* match may capture some large organizations that do not file Form 990 within two years

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<sup>16</sup> Matching rates for each type of Form in the included states and the distribution of Form 990 and Form 990-EZ in excluded states are used to estimate the division of organizations in excluded states between the *matched* and *unmatched* columns (Row F).

of the end their fiscal year.<sup>17</sup> Alternatively, some organizations are not required to file and participate in the UC system. Large religious organizations are an example. At the other extreme, many small organizations not required to file Forms 990 have no employees and would not have a UC record that matches the *Registry*. The number of organizations detected by *Registry* matches is a puzzle.<sup>18</sup>

## 5.2 Employment 501(c)(3) organizations, 2003

### 5.2.1 Aggregates for the US

Rows A, B, and D of Table 4 include seven cells defined by the IRS data available (Form 990, Form 990-EZ, *Registry*), match status (match [yes, no]) in included states, and the remainder, unmatched organizations filing from excluded states. We use the same logical structure to display employment aggregates in Table 5. The number of organizations (from Table 4) is repeated in the leftmost column as a guide to the reader. The column headed *establishments, raw* shows the number of establishments operated by matched organizations. The column headed *establishments, weighted* indicates the extent to which *invalid ein's* conceal presence of matching establishments. The remaining columns pertain to estimates of employment.

The subtotal row sums Form 990/990-EZ filers with worksites in included states.<sup>19</sup> The row *Available states* adds employment from matches to the *Registry* to the subtotal. The total row counts both matched and unmatched employment in all states. As no QCEW data are available for excluded states, totals can not be calculated for QCEW employment or establishments.

Deleted:

The IRS column labeled *employment, raw* contains reports from Form 990. The top row indicates that IRS reports on Form 990 exceed raw *QCEW* employment by 50,000 (0.74%) for

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<sup>17</sup> SOI sampling does not substitute prior year records for large organizations that are missing from the stratum that is sampled with certainty.

<sup>18</sup> An alternative hypothesis is that some of the organizations treated as 501(c)(3) here should be classified elsewhere. That possibility can only be resolved with detailed study of more recent data, where the 501(c) subsection is more completely classified.

<sup>19</sup> The subtotal for organizations appeared in Table 4, column *subtotal*, row C.

matched records.<sup>20</sup> That difference has two principal sources: (1) workers not covered by UC do not appear in *QCEW*; and (2) workers reported on Form 990 include workers in excluded states. Multi-state organizations that operate in both excluded and included states will show more employees in the first row than their *QCEW* report which excludes some states.

The column *Imputed* shows more employment than *raw* because we substituted *QCEW raw employment* for zeros on Form 990's that failed to report employment. Attribution of *QCEW* employees increases aggregate employment by 633,000 on Form 990's, an increase of 9.3%.<sup>21</sup> This imputation is too small because many part-time workers and student workers are not counted in *QCEW*. Also, employees of organizations that have establishments in excluded states are understated to the extent that the organization has employees in the excluded states.

Additional employees should be imputed to unmatched Form 990 records (in 2<sup>nd</sup> row and *990, exc.*). Employment is presumably unreported and at a greater rate than matched Form 990 filers. Smaller organizations are likely to have more difficulty in correctly completing Form 990 than matched organizations. Ratio estimation of the imputation is inappropriate, as a proportion of unmatched organizations are nonemployers, while nearly all matched records currently employ workers. A statistical model that encompasses both the decision to employ workers and the number employed is needed to impute employees to the unmatched records.

The third row displays matched Form 990-EZ. No employment information can be garnered from those records. Weighting *QCEW* employment makes imputed numbers more representative of the universe, while unweighted employment would understate levels in the exempt sector (David 2007a). Weighted *QCEW* employment is transferred to the *Imputed* column, in the third row.

Matching *QCEW* to the *Registry* identifies 22,668 organizations that did not file Form 990/990-EZ (Row 6). The *Registry* organizations contribute a weighted count of 32,749 worksites and weighted employment of 1,777,000. Weighted employment from the *Registry* is added to the count from Forms 990/990-EZ in the column labeled *augmented*. A considerable

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<sup>20</sup> Weighted *QCEW* employment exceeds raw IRS employment. However, weights are not appropriate in this context. The cells compared pertain to records that match, precluding invalid ein's. Employment for unmatched Form 990 in included states is represented in the second row.

<sup>21</sup> Raw employment is used in the imputation as invalid ein's can not occur when matches are successful.

part of the 1.8 million may be employed in large, late-filing organizations. That is suggested by the relatively large numbers of establishments associated with the *Registry* matches. The character of the remainder of the organizations that we identify by *Registry* matches is unknown.

In the total row, covering all states, augmented employment is 11.7 million (50%) higher than the raw, 7.8 million, count of Form 990 IRS employment. The difference lies in two enhancements to the Form 990 data: (A) the 1.8 million employees represented by *Registry* rather than Form 990/990-EZ matches in *included states*; and (B) the 0.6 million imputed employees unreported to IRS on Form 990, again, in *included states*.

Three other aspects of employment aggregates are noteworthy. First, Form 990 counts 1.0 million workers in organizations that file from included states and do not appear in the QCEW.<sup>22</sup> This count understates employment, as explained above. Second, UC coverage for Form 990-EZ filers is small. We estimate that a quarter of Form 990-EZ filers are employers and only 8% match QCEW. (Employment in small organizations must be elicited directly from a revised Form 990-EZ.) Third, extrapolation of imputed employment, or modeling of an employment imputation, would increase employment numbers in excluded states by roughly 8 percent (the ratio of imputed to raw in the subtotal row). It appears prudent to investigate differences among industry classes before attempting that imputation, as reporting of employees is not uniform across industries.

### 5.3 Employment in major industries

#### 5.3.1 Industry classifications

Forms 990/990-EZ are classified by the *National Taxonomy of Exempt Entities (NTEE)*. This classification was adopted by the nonprofit sector in the 1980's and is used in IRS/SOI statistics on the sector. Although more detail is available, we used a classification that collapsed the code to 15 classes and unclassified. Labels for the NTEE classes appear in the text table below.

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<sup>22</sup> A match of *QCEW* to the *Registry* could impute employment to the IRS *Business Master File*, where employment does not appear. The resulting employment count could be weighted adding 200,000 (2.4%) to totals available from the *QCEW*. This experiment makes clear that *QCEW* without the Form 990 employment count lacks substantial coverage of 501(c)(3) employment shown in table 5.

Abbreviation	NTEE classes	Label
A	A	Arts, Culture & Humanities'
B not B4	B except B4	Education, excludes post-secondary
B4	B4	Higher education (post-secondary)
C, D	C, D	Environment, Animal-related
E, not E2	E,F,G,H except E2	Health, not hospitals
E2	E2	Hospitals (and support organizations)
I, M	I,M	Crime, public safety
J, K, L	J, K, L	Employment, Food & Agriculture, Housing
N, O	N, O	Recreation sports, Youth development
P	P	Human services, multi-purpose, and other
Q	Q	International, foreign affairs
R – W	R, S, T, U, V, W	Advocacy, Philanthropy, Science, Society benefit
X	X	Religion related
Y	Y	Mutual/ membership benefit
Z	Z	Unclassified

The *NTEE 15* provides detail that is similar to NAICS sectors. NAICS industry classes are available *only* for records matched to the *QCEW*. Those classes apply to *establishments* and can vary over the distinct worksites identified through the BLS disaggregation of multi-establishment organizations to counties. Multiple classifications occur in less than 10% of matched cases (derived from Table 3).

Table 6 shows the distribution of organizations and matched establishments over NTEE classes. The difference in the distribution of matched establishments and the distribution of organizations reflects (a) variation in the match rate by NTEE and (b) differences in the proportion of organizations that have multiple establishments in different NTEE classes. For example, A, Arts organizations, tend to be small with too few employees to be matched. They also are unlikely to have multiple sites. The result is that matched establishments are 6% or all establishments, while arts organizations are 10% of the total. E2, Hospitals, reflect the opposite

situation; match rates are high and many have multiple establishments. Hospitals are 4% of all matched establishments, and 1% of all organizations.

### 5.3.2 Employment by NTEE

Table 7 disaggregates employment into 15 NTEE classes. Weighted counts from the *QCEW* in column 3 are unbiased for each state and size of workforce.<sup>23</sup> Columns 4-6 display NTEE aggregates of *raw*, *imputed* and *augmented* IRS employment (defined as in Table 5). Column 4 is limited to Form 990 information. The imputed and augmented columns enhance Form 990, Form 990-EZ, and *Registry* matches with available *QCEW* data. Augmented employment is larger than the weighted *QCEW* for each of the 15 NTEE classes. More employees are identified by *QCEW* than by Form 990 in three industries (*B not B4*; *X*; and *Y*).

The outcomes of imputation and augmentation vary widely over the 15 NTEE classes. Both Education, *B not B4*, and Mutual membership benefit, *Y*, acquire more than half of their employment from *Registry* matches. Mutual membership benefit, *Y*, also shows a large increase because employment is unreported on Form 990. At the other extreme, International, foreign affairs, *Q*, report employment well and are seldom identified by *Registry* matches. Together, imputation and augmentation increase reported employment for *Q* by 7.3%.

Table 8 reveals the impact of imputation and augmentation through ratios of employment counts to various bases. Column 1, *imputation rate*, of Table 8 displays imputed employment as a proportion of employment reported by *matched* organizations filing Form 990. This ratio is smaller than the 20% of organizations that fail to report employment on matched Forms 990 because the level of employment is lower in nonreporting organizations. The range of column 1 is from 4% for *E2*, Hospitals and their related support organizations to 90% for *Y*, mutual/membership benefit organizations.

Column 2, *Augmentation rate*, displays the proportional increase of imputed employment that comes from *Registry* matches (over the included *QCEW* states). The concentration of unclassified industries in *Registry* matches assures that the augmentation rate is extreme for class *Z*. The reasons for remaining rates over 100% are unclear. Educational institutions other than higher education, class *B not B4*, may administer small trusts established to finance

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<sup>23</sup> Weights do not control for industry, and introduce variance into these estimates (David 2007).

scholarships. Employees in this case may be educators in the school, while the trusts are nonemployers. The trusts may be exempt from filing information returns. Further study of NTEE classes with high rates of augmentation is appropriate.

Sorting the NTEE classes according to the proportionate change induced by imputation (column 1) gives the middle panel of Table 8. Sorting the NTEE classes according to the proportionate change induced by augmentation (column 3) gives the right panel of the table. The bold NTEE classes in the sorted panels are defined by the partition of all classes into thirds. *E2* and *Q* lie in the bottom third of both imputation and augmentation. *B* not *B4*; *N*, *O*; and *Y* lie in the top third of both imputation and augmentation. The association may be due to a concentration of small and relatively new organizations in the top third.

We conclude:

- Imputation of employment on Forms 990 is essential. Imputed employment counts exceed matched Form 990 in most industries by more than 10%. Higher education, hospitals, and international organizations are the exception.
- A match of *QCEW* to the *Registry* is needed to augment IRS employment estimates for Education (not higher education) and for religious organizations.
- Augmented employment is sufficiently larger than a match which relies only on *QCEW* in most NTEE classes that *QCEW* can not be the sole source for employment information on charitable organizations.

## 6 Evaluation

### 6.1 Nonemployers and matching: How much do we know?

Accounting for nonemployers gives another perspective on coverage and employment reported in Tables 4 and 5. Both Form 990 and Form 990-EZ elicit reports of compensation. If that information correctly predicts absence of employees, it can be used in imputing employees. Comparison of Form 990 records matched to *QCEW* records revealed that 20% of organizations fail to report employment. 97% of the non-reporting organizations reveal compensation. The consistency of compensation reporting in the two record systems makes compensation a useful predictor of employment. However 1.1% of matched forms report neither compensation nor

employees on Form 990. More than three-fifths of this group *should* report employment on Form 990. Absence of compensation and employees on Form 990 do not always predict nonemployers.

Unmatched Forms 990 in included states show 51% with no compensation; organizations in excluded states show 31% with no compensation. Using those estimates we calculate that almost 50,000 of the 201,000 Form 990 filers are not employers; and 37,000 of the 53,000 Form 990-EZ filers are not employers. In all, 87,000 of the 254,000 Form 990/990-EZ filers can be tentatively identified as nonemployers. Those estimates are too high, as we can not quantify the proportion of filers who bury compensation expenses among *other expenses*.<sup>24</sup>

Our estimate of nonemployers can be applied to rows C and F in Table 4. 83,300 matches plus the 12,800 matches estimated for excluded states gives 96,100. Dividing those matches by the difference between all filers and nonemployers, 254,000 less 87,000, yields a match rate of 57%. That compares to the 43% rate shown in row G. A clear reality is that some employers are exempt from UC and will never match. However, unknown errors also contribute to low match rates. The level of failed matches is certainly more than the 1.7% we have identified. An important contributor to those errors are birth, death, and merger of organizations. Each of those events can create discrepancies between ein's used in filing Forms 990/990-EZ and *QCE*.

## 6.2 Adequacy of employment estimates for charitable organizations

At this point we see a glass half-full, half-empty. The 2002 *Economic Census* counts 9.5 million employees in exempt organizations in those industries in which charitable organizations are concentrated (Table 1). Some additional charities and religious organizations are counted in a sector that includes many exempt organizations that are not charities. The failure to divide exempt into two groups – (a) charities (501(c)(3)) and religious congregations and (b) other exempt entities –compromises the policy value of the estimates. Exclusion of K-12 and higher education compromises those estimates.

The match of *QCEW* to IRS counts almost as many 501(c)(3) employees as the *Economic Census*, in a universe that excludes *QCEW* information for four states. The match shows 1.8 million employees in education that are largely excluded from the Census universe.

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<sup>24</sup> IRS/SOI has identified this pathology in completing Form 990 as an important source of error.



IRS counts 1 million more employees in charitable organizations than *QCEW*. IRS counts 0.7 million less than Census, when primary and secondary education are excluded. IRS fails to impute Form 990 and elicit employment for Form 990-EZ. Substituting *QCEW* employment for missing information fills most of the Census-IRS gap, via the 0.6 million employees we have imputed. More imputation is needed to eliminate unreported employment in unmatched Form 990 records.

Our largest employment estimate for charitable organizations, the augmented composite of *QCEW* and Form 990, is 11.7 million, or 9.0 million, when education is excluded. That estimate is for 2003, while the comparable Census number reflects a smaller population of organizations with fewer employees in 2002. Including exempt organizations other than 501(c)(3) brings our augmented estimate to 13.3 million, substantially larger than the Census counts including all of NAICS 813.

The current, quinquennial Census estimate does not adequately track increasing employment in a sector that is growing rapidly (David, Pollak, Arnsberger 2006). Total nonprofit employment is the same order of magnitude as the health sector of the economy (which includes a major group of exempt organizations).

### **6.3 Timeliness and employment dynamics**

Openness and accountability motivate the mandate for exempt entities to file information returns open to the public. Donors, potential donors, and persons valuing an equitable and efficient tax structure need to know that *every* exemption is not a scam. The gestation period for both Census and IRS/SOI statistics is more than two years, an interval that does not enable public review at a time when malfeasance can be nipped in the bud.

Estimates of employment in exempt organizations could be produced by *QCEW* nine months after the quarter. The gestation period for estimates from Form 941 would be no longer. Tallies of those administrative records would also reveal the number of exempt organizations (or establishments), the exempt subsection (e.g., 501(c)(3)), and the NTEE classification of those organizations.

We know that births and deaths of enterprises account for a large part of the flux in job creation and job destruction. (Haltiwanger, Davis, Schuh 1996; BED, BLS) The annual rate of births and deaths is staggering. A speculation is that both births and deaths of charitable

organizations exceed levels in the private business sector. We can not know, until charitable organizations are partitioned from other private, nonfarm business employers.

#### **6.4 Summing up**

A great deal of value attaches to statistics on employment, and employment growth, in exempt organizations with classification by industry and geography. The potential to produce those statistics exists in current administrative record systems. The substantial tax subsidy to donors to charitable organizations, and a need to know more about how these organizations perform argues eloquently to publish employment estimates for charitable organizations, other exempt organizations, and the residual of private business.

*QCEW* has been shown to enhance statistics derived from Forms 990/990-EZ and the *Registry*. The Form 941 appears to have a greater capacity to count employees, but that has not yet been proven. Coverage and presentation of charitable organizations in *Economic Census* needs to be improved to allow policy analysts to associate changes in employment with tax expenditures estimated for the sector.

### **7 A work plan for the future**

#### **7.1 Statistical Agencies**

##### **7.1.1 First-best activity**

Both IRS/SOI and the Census have access to Form 941, with its employment and payroll information. Both agencies have unlimited access to information returns filed on behalf of exempt organizations and the *Register*.<sup>25</sup> The steps taken in this paper can be replicated on Form 941. The tri-partite match – Forms 990/990-EZ, *Registry*, and Form 941 – can be executed in both agencies. Census may have an advantage in editing and linking records (Winkler 2004); IRS/SOI may have earlier and more comprehensive access to records.

Both agencies currently receive updates from IRS *Business Master Files* monthly. Those files contain extracts from Form 941 and Form 990/990-EZ. The *registry* is also updated monthly. Both agencies could devise a quarterly estimate of exempt employment that is

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<sup>25</sup> Publication of identifiable information at the organizations level is sanctioned. So no disclosure review is necessary at the organization (ein) level of detail.

subsequently benchmarked to the more thoroughly edited annual samples of Form 990/Form 990-EZ produced by IRS/SOI.

Indicators of exempt status and applicable IRC section can be taken from Form 990/990-EZ and the IRS *Registry*. They can be inserted into the *Census Business Register*. That would enable sampling using exempt status (not exempt, 501(c)(3), other exempt) and, more importantly, analyses of differences between exempt and other organizations.

### 7.1.2 Second-best activities

A. IRS/SOI can impute unreported employment on Form 990. This should yield far more employment than the 633,000 we substituted from the *QCEW*. We know from this investigation that even rough imputation can produce the same order of magnitude of employment as the *QCEW* (Table 5).

The BLS has its own business register that is derived from the *QCEW*. Under current law BLS can not access the Form 941, but it can receive the continuous stream of Forms 990/990-EZ as they become available in the *IRS Business Master File*, because all of that information is public. Thus it is feasible for BLS to continue the tri-partite match – Forms 990/990-EZ, *Registry*, and *QCEW* – pioneered in this research. The *IRS Business Master File* does not include employment so that employment estimates would only cover the *QCEW* universe. Such estimates could be produced within the current nine-month interval after the quarter that is the timetable for *QCEW* reports. The *QCEW* exempt employment series should be compared to SOI employment estimates that lag the reporting year by about 30 months.

The gain from a continuing BLS activity would be to partition *Business Employment Dynamics* (BLS webpage) into estimates of private for-profit and a private nonprofit job creation and destruction.

## 7.2 Operating Agencies

### 7.2.1 IRS/TEGO

IRS/TEGO administers approvals for tax exemption, updates the *Registry* and classifies exempt organizations by NTEE. IRS/TEGO has the power to reject Forms 990/990-EZ that are incomplete. It can identify organizations that fail to file timely information returns. It can reject all Form 990 returns where employment is not reported. IRS/TEGO should also reject Form 990 where no compensation is paid and employees are present.

IRS/TEGO can ask to have Forms redesigned so that answering the employment question is tied directly to reports of positive compensation. Then Form 990-EZ could have an employment question that is conditional on positive compensation.

Electronic filing of Form 990 is required for large organizations and facilitated by free software for small organizations. With e-filing, Forms that fail to report employment, when requested, can be rejected by edits in the e-filing software. That eventuality will ultimately greatly reduce current unreported employment.

### 7.2.2 OMB/OIRA

OMB/OIRA administers the *Paperwork Reduction Act*. It contains the Office of the Chief Statistician whose role is to coordinate the US statistical agencies and provide guidance to good statistical practice. The Chief Statistician needs to be convinced that higher priority be given to employment statistics for charitable organizations.

### Acknowledgements

I thank the Urban Institute and the Bureau of Labor Statistics for their far-sighted access to microdata pertaining to nonprofit organizations. The National Center for Charitable Statistics and its Dataweb (NCCS 2003) provided the *Registry* and Form 990/990-EZ from 1999-2003 for this research. Linda Lampkin and Tom Pollak offered critical suggestions on what was needed for policy-making on charitable organizations. Jen Auer ably assisted me in identifying mismatches and thinking about multi-establishment organizations. Kendal Golladay prepared extracts of the population files and detected invalid EIN's.

Amy Knaup and Merissa Piazza reviewed work-in-progress and provided disclosure review for the tables presented. Rick Clayton and David Talan educated me about the QCEW program and reviewed this paper and David (2007). Access to BLS data through its secure research site is overseen by thoughtful peer review, chaired by James Spletzer, and is a major resource for scientific research on data collected by the BLS.

The views expressed here do not reflect policies of the BLS. I am responsible for the design of this study and errors in its execution. I hope others can advance beyond these limited results.

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### **Appendix A. Comparison of NTEE and NAICS classifications**

The granularity of industry coding used in this analysis allows for 15 bins of the NTEE (excluding unclassified) and 15 bins for the NAICS. If the information in both coding systems were identical and no errors were made in coding, all NAICS sector codes should map into one NTEE bin, and conversely. Figure 2 shows the allocation of NAICS industries to NTEE classes for NTEE-NAICS combinations that include a total of 90% or more of NTEE employment.<sup>26</sup> Three NAICS sectors are “well-behaved” as the sector maps uniquely to one NTEE class. Seven additional sectors match to two NTEE classes. Four sectors (54, 61, 62, and 81) are substantially partitioned as NAICS is distributed to five or more NTEE bins.

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<sup>26</sup> Limiting the combinations of NAICS to NTEE to classes that contain the preponderance of employment reduces combinations that result from a low level of classification error. The share of employment included was chosen to avoid problems with disclosure of employment information within each NTEE-NAICS combination.

Table 1. Nonprofit employment reported in Economic Census 2002

Naics classification	Employment			Establishments		
	A Exempt	C All	D Ratio: A/C	E Exempt	G All	H Ratio: E/G
61	120	431	0.28	12	50	0.24
62	7,980	15,048	0.53	136	703	0.19
71	1,363	1,847	0.74	49	109	0.45
813	936	936	1.00	11	11	1.00
Total						
exc. 813	9,463	17,326		197	862	
inc. 813	10,400	18,262		208	874	

Source: A1

**Table 2. Reallocation of NA and mismatched 501(c) subsection  
 matched organizations, 2003q1\***

Reallocated subsection	501(c) subsection	Type of match		Total	
		Forms 990	Registry	Count	Percent
<b>501c3 plus</b>	<b>NA</b>	171	2,338	2,509	2.4
	<b>501(c)(3)</b>	83,117	20,330	103,447	97.6
	<b>Total</b>	83,288	22,668	105,956	100.0
		<b>Type of reclassification</b>			
		<b>None</b>	<b>LbrBusGov</b>		
<b>Not 501c3</b>	<b>NA</b>	5	527	532	0.8
	<b>501(c)(3)</b>	0	409	409	0.6
	<b>Other</b>	64,872	0	64,872	98.6
	<b>Total</b>	64,877	936	65,813	100.0

\* Excludes all Naics 52 (Finance and Insurance).

Source: Table 10. 02oct06.

Wss\_tables16oct06\_d21may22mar07.xls



**Table 3. Proportion of matched organizations with multiple worksites, interstate operations**

**By type of match, 501c3 plus organizations, 2003q1**

<b>Match</b>	<b>Organ-izations</b>	<b>Rate: Multi-establishment</b>	<b>Rate: multi-state</b>
<b>Form 990</b>	79045	9086 0.115	3161 0.040
<b>Form 990-EZ</b>	4243	d *	d *
<b>Registry</b>	22668	1197 0.053	482 0.021

d, not disclosable

\* Less than 0.005

Source: **12. 03oct06.**

**Table 4. Strata defined by QCEW matches to Forms 990, 501(c)(3) organizations, 2003q1\***

	Included states Matched to QCEW?		Subtotal	Excluded states	Total
	Yes	No			
A <b>Form 990-EZ</b>	4,243	42,166	46,409	6,733	53,142
proportion of Forms 990	0.080	0.793		0.127	1.000
B <b>Form 990</b>	79,045	95,294	174,339	26,866	201,205
proportion of Forms 990	0.393	0.474		0.134	1.000
C <b>Subtotal NCCS Census</b>	83,288	137,460	220,748	33,599	254,347
proportion of Forms 990	0.327	0.540		0.132	1.000
D <b>Master QCEW matches</b>	22,668		22,668		22,668
augmentation rate			0.10268723		
E <b>TOTAL</b>	105,956	137,460	243,416	33,599	277,015
proportion of total	0.382	0.496		0.121	1.000
F <b>Estimated matches**</b>	<i>12,797</i>	<i>20,802</i>			
G <b>UNIVERSE</b>	<i>118,753</i>	<i>158,262</i>	277,015		277,015
proportion of universe	<i>0.429</i>	<i>0.571</i>	<i>1.000</i>		<i>1.000</i>
H 990dd/all_dd			0.790	0.800	
I match rate 990			0.377	<i>0.381</i>	

\*Includes 4,836 cases where 501(c) section is not known. 2338 are in the Master matches; the remainder are relatively equally distributed across the filing population.

\*\*Entry in 'Yes' column is the product of the estimated match rate in excluded states (row I) and the 33,600 excluded filers (row E).  
 0

No estimate of additional augmentation is included.

Source: Table 1

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**Table 5. Imputation and augmentation of Form 990 Employment, 2003, Section 501(c)(3), in 1,000's**

<u>Source</u>	<u>Match?</u>	<u>Orgs.</u>	<u>OCEW emp.</u>		<u>IRS employment</u>		
			<u>Raw</u>	<u>Wtd.</u>	<u>Raw</u>	<u>Imputed</u>	<u>Augmented</u>
<u>990, inc.</u>	-	-	-	-	-	-	-
	<u>Yes</u>	79	6,780	6,930	6,831	7,463	7,463
	<u>No</u>	95			1,005	1,005	1,005
<u>990-EZ, inc.</u>	-	-	-	-	-	-	-
	<u>Yes</u>	4	10	10	NA	10	10
	<u>No</u>	42					
<b>Subtotal</b>		220	6,790	6,940	7,836	8,478	8,478
<b>Registry</b>	<u>Yes</u>	23	1,724	1,777	NA	NA	1,777
<b>Available states</b>		243	8,514	8,717			10,255
<u>990, exc.</u>	-	27	-	-	1,485	1,485	1,485
<u>990-EZ, exc.</u>	-	7	-	-	-	-	NA
<b>Total</b>	-	277	NA	NA	9,321	9,963	11,740

Excess of IRS employment over included OCEW

1.16

1.22

*Italics reflect model-based weighting of OCEW and substitution of OCEW for missing employment reports to IRS. Imputation would increase employment in unmatched and excluded states.*

**Table 6. Organizations and matched establishments by NTEE  
 2003 q1, 501c3 plus select NA subsection**

NTEE 15	IRS Organizations		QCEW establishments		
	Count	Percent	Count	Percent	Wtd.
<b>A</b>	28,582	10.3%	10,468	6.0%	10,628
<b>B not B4</b>	47,890	17.3%	20,487	11.8%	20,749
<b>B4</b>	1,376	0.5%	2,029	1.2%	2,061
<b>C,D</b>	10,273	3.7%	4,977	2.9%	5,047
<b>E not E2</b>	33,480	12.1%	30,167	17.4%	30,496
<b>E2</b>	3,378	1.2%	6,968	4.0%	7,067
<b>I</b>	4,811	1.7%	3,578	2.1%	3,619
<b>J,K,L</b>	21,069	7.6%	13,254	7.7%	13,405
<b>M</b>	4,003	1.4%	731	0.4%	741
<b>N,O</b>	25,772	9.3%	9,124	5.3%	9,249
<b>P</b>	38,627	13.9%	41,943	24.2%	42,374
<b>Q</b>	4,982	1.8%	2,112	1.2%	2,149
<b>R - W</b>	32,980	11.9%	17,028	9.8%	17,256
<b>X</b>	17,484	6.3%	7,681	4.4%	7,820
<b>Y</b>	659	0.2%	489	0.3%	495
<b>Z</b>	1,649	0.6%	2,179	1.3%	2,218
<b>Total</b>	277,015	100.0%	173,215	100.0%	175,373

Source: T5A\_14sep06.

Wss\_tables16oct06\_d21may22mar07.xls

**Table 7. Employment by NTEE major sectors, 2003 q1, 501c3 plus select NA subsection**

NTEE 15	IRS organ- izations	QCEW employment		IRS employment		
		Raw	Wtd.	Raw	Imputed*	Augmented**
<b>A</b>	28,582	184,565	187,908	243,222	260,772	289,694
<b>B not B4</b>	47,890	1,119,588	1,158,436	577,391	644,346	1,381,306
<b>B4</b>	1,376	728,814	757,030	1,107,722	1,184,338	1,270,880
<b>C,D</b>	10,273	65,756	66,928	70,176	78,222	83,430
<b>E not E2</b>	33,480	1,272,976	1,289,056	1,329,935	1,439,382	1,713,259
<b>E2</b>	3,378	2,884,275	2,971,198	3,525,270	3,635,550	3,875,725
<b>I</b>	4,811	47,447	47,882	55,246	62,594	65,325
<b>J,K,L</b>	21,069	270,879	273,897	362,594	400,201	428,882
<b>M</b>	4,003	7,181	7,226	6,940	8,167	9,199
<b>N,O</b>	25,772	140,490	142,051	123,994	141,340	185,005
<b>P</b>	38,627	1,258,663	1,271,529	1,544,368	1,693,076	1,761,028
<b>Q</b>	4,982	20,429	20,687	39,046	40,835	41,882
<b>R – W</b>	32,980	277,378	282,398	265,133	297,781	359,063
<b>X</b>	17,484	125,731	128,391	64,997	69,936	160,529
<b>Y</b>	659	13,057	13,207	3,424	5,411	14,855
<b>Z</b>	1,649	96,660	99,043	1,175	1,261	99,769
<b>Total</b>	277,015	8,513,889	8,716,863	9,320,633	9,963,211	11,739,831

\* Substitutes QCEW employment for matched Form 990, employment NA, and matched Form 990-EZ.

\*\* Adds Registry matches to imputed.

Source: T5B\_14sep06.

**Table 8. Imputation and augmentation, 2003q1, 501(c)(3)  
 Matched Form 990's**

NTEE 15	Ordered by NTEE 15		Ordered by		Ordered by	
	Impu- tation rate*	Augmen- tation rate**	NTEE 15	rate*	NTEE 15	rate**
A	0.107	0.111	<b>E2</b>	0.043	<b>Q</b>	0.026
B not B4	0.173	1.144	<b>Q</b>	0.055		0.040
B4	0.086	0.073	B4	0.086	I	0.044
C,D	0.132	0.067	A	0.107	<b>E2</b>	0.066
E not E2	0.117	0.190	E not E2	0.117	C,D	0.067
E2	0.043	0.066	X	0.118	J,K,L	0.072
I	0.178	0.044	P	0.127	B4	0.073
J,K,L	0.139	0.072	C,D	0.132	A	0.111
M	0.197	0.126	J,K,L	0.139	M	0.126
N,O	0.177	0.309	R - W	0.154	E not E2	0.190
P	0.127	0.040	<b>Z</b>	<i>0.164</i>	R - W	0.206
Q	0.055	0.026	<b>B not B4</b>	0.173	<b>N,O</b>	0.309
R - W	0.154	0.206	<b>N,O</b>	0.177	<b>B not B4</b>	1.144
X	0.118	1.295	I	0.178	X	1.295
Y	0.906	1.745	M	0.197	<b>Y</b>	1.745
Z	<i>0.164</i>	<i>78.110</i>	<b>Y</b>	0.906	<b>Z</b>	<i>78.110</i>
All	0.093	0.210	All	0.093	All	0.210

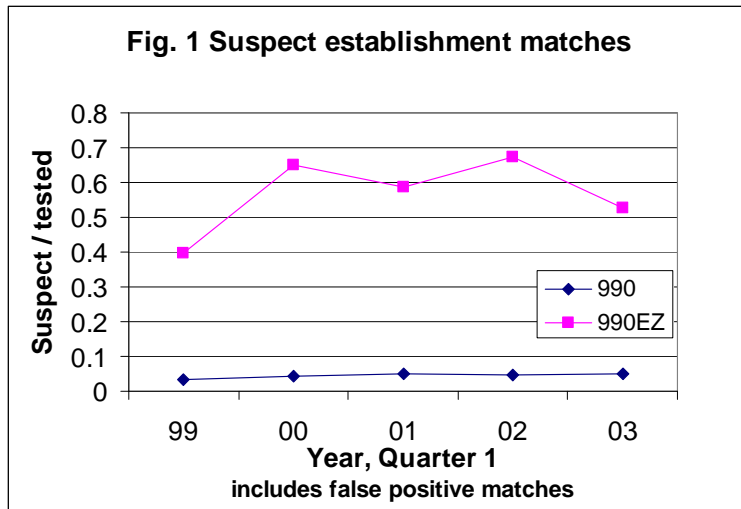
\*Observed for Form 990 matched to QCEW.

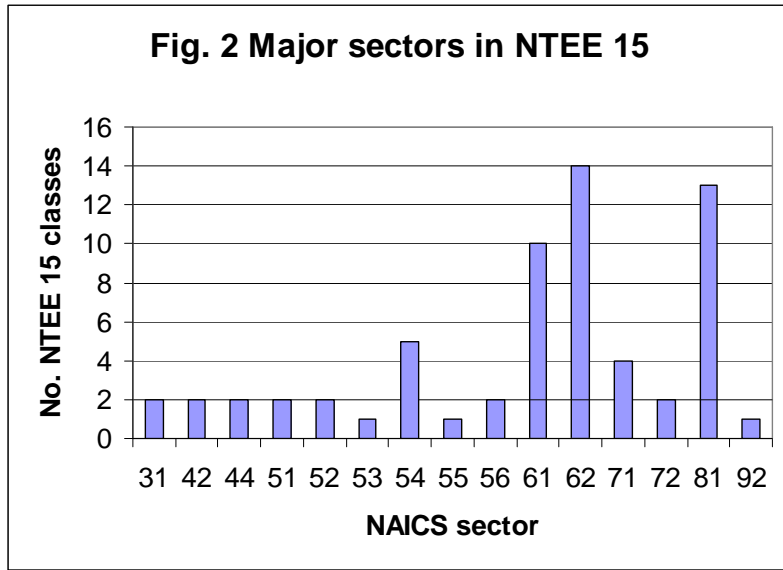
\*\*Increase over imputed total, for all matches, included states.

**Bold** emphasizes consistency of ranks for industries in the top of bottom third of NTEE classes.

*Italics* emphasize that no industry class is assigned to Z.

Source: F6\_T6\_Wss\_tables16oct06.xls revised





Source: ddldb\_nt2p\_naics2dis28sep06.xls



**From:** [Marla Bobowick](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Comments from BoardSource  
**Date:** Monday, August 27, 2007 1:00:39 PM  
**Attachments:** [BoardSource Comments Form 990 082407.pdf](#)

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Attached please find a copy of BoardSource's comments on the Draft Form 990. If you have any questions, please don't hesitate to call.

Marla J. Bobowick  
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**BoardSource**  
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Formerly the National Center for Nonprofit Boards

## MEMORANDUM

**To:** Internal Revenue Service  
Form 990 Redesign  
Attention: SE:T:EO  
1111 Constitution Avenue, NW  
Washington, DC 20224  
(Form990Revision@irs.gov)

**From:** BoardSource

**Date:** August 24, 2007

**Re:** IRS Draft Form 990

We support efforts by the IRS to redesign the Form 990 so that it enhances transparency, promotes tax compliance, and minimizes the burden of filing. We applaud efforts by our peer organizations, particularly Independent Sector (IS) and the National Council of Nonprofit Associations (NCNA), to facilitate a nationwide conversation with nonprofit organizations about the implications of the changes and to lead a coordinated, comprehensive response.

While the revised form contains many improvements, it also raises a few concerns. We concur with IS and NCNA's general concerns about (1) the sector's diversity, especially challenges faced by small nonprofits trying to implement best compliance practices with limited resources and (2) the need for greater clarity caused by confusing or misleading instructions, especially given the heightened emphasis on best practices. Given BoardSource's focus on nonprofit governance, we offer the following comments on questions specific to board practices.

BoardSource draws on a robust, proven, and well-recognized knowledge base of best practices in nonprofit governance. BoardSource is committed to helping nonprofit boards work in partnership with chief executives to make more informed and independent decisions, to access needed resources, to reduce risk, and to operate in a manner that maintains the public trust. Founded in 1988, BoardSource seeks to increase the effectiveness of nonprofit organizations by strengthening their boards of directors. BoardSource is the preeminent national organization focused solely on providing governance expertise, resources, and capacity-building assistance to thousands of nonprofit boards, representing various budget sizes and life cycle stages, in every state in the nation. Each year more than 400,000 nonprofit professionals and board members utilize BoardSource products, programs, services, and Web resources.

This memo provides specific line-by-line feedback on Parts II and III. If you have questions, please contact Marla J. Bobowick, Vice President, at [mbobowick@boardsource.org](mailto:mbobowick@boardsource.org).

**Part II Compensation and Other Financial Arrangements with Officers, Directors, Trustees, Key Employees, Highly Compensated Employees, and Independent Contractors**

Column A **Board Member Privacy:** We believe that, at its core, nonprofit board service is a public activity and board rosters should be public information. But, for some board members, this public service carries greater risk because their organizations are involved in controversial issues. We concur with IS and NCNA that the IRS, in the instructions, should encourage organizations to provide the city and state of residence but continue to allow organizations concerned about harassment and threats to use the organization’s business address for board members.

Columns B/C **Officers:** We worry that the designation of “officer” in Columns B and C may be confusing for those completing the Form 990 and, more notably, for those reading the form. The glossary definition of *officers* refers to individuals who are responsible for implementing decisions made by the governing body and lists titles held by paid employees. For nonprofit boards, however, the term “officers” – which is defined in each organization’s bylaws – also refers to positions of board leadership, such as board chair or president, vice chair(s) or president(s), secretary, and treasurer. This has been a frequent source of confusion for lay people. We recommend that the IRS clarify in the instructions and glossary whether “volunteer” board officers are intended to be included in this category.

**CFO or Treasurer:** We have a similar concern about the use of CFO or Treasurer, and we encourage the IRS to also clarify this in the instructions and glossary. We recommend that the IRS specify in the instructions and glossary whether this means the staff position and/or the board treasurer.

**Part III Statements Regarding Governance, Management, and Financial Reporting**

Because the questions in this part contain a mix of compliance requirements and best practices, we recommend rearranging the questions into five categories and adding introductory text to each category on the form so that lay people will not misinterpret answers.

A. Board Structure

- Board size and independence (line 1)
- Changes to documents (line 2)
- States where filing Form 990 (line 12)

B. Governance Practices

- Board meeting minutes (line 6)
- Financial audits (line 8)
- Audit committee (line 9)
- Board review of Form 990 (line 10)

C. Policies

- Conflict of interest (line 3)

Whistleblower (line 4)

Document retention/destruction (line 5)

D. Disclosure

- Documents (line 11a)
- Form 990 (line 11c)
- Form 990-T (line 11d)
- Audited financial statements (line 11e/f)

E. Related Organizations

- Chapters and affiliates (line 7)
- Joint ventures (Part VII, line 11)
- Related organizations (Part VII, line 12)

Line 1 **Composition of the Governing Board (line 1a):** We believe that nonprofits should be required to disclose information about board size. We agree with IS and NCNA that the instructions should clarify that honorary and advisory board members without a vote should not be included. However, this may be confusing, given the glossary definitions of *governing body* and *directors or trustees*. We believe that the most reliable way to measure board size, from organization to organization, is to ask about voting members. Therefore, we recommend rephrasing the question as “Enter the number of voting members of the governing body.” We also suggest that the instructions specify the end of the reporting period.

**Board Member Independence (line 1b):** We also believe that nonprofits should disclose how many board members are independent. It is worth noting that this question, given the glossary definition of *independent member of the governing body*, excludes paid CEOs. Many nonprofit CEOs are *ex officio* members of the board, some with a vote and others without. Thus, nearly all nonprofits will have at least one non-independent board member – the CEO.

Line 2 **Changes in Organizing or Governing Documents:** We support the effort to streamline reporting and reduce attachments, and we believe nonprofits should disclose changes to their organizing and governing documents. We see important distinctions between (1) organizing documents, such as articles of incorporation, charters, constitutions, trust instruments, (2) governing documents, such as bylaws, and (3) other policies and procedures related to compensation, conflicts of interest, whistleblowers, document retention and destruction, and audit committee composition and procedures. We recommend that this question focus exclusively on organizing and governing documents and that the instructions and glossary provide clarification of these terms and what constitutes a reportable change.

**Other Policies:** We believe it is best practice to have policies and procedures for core oversight activities, and that the IRS can play a valuable role in encouraging nonprofits to establish such policies simply by asking about them. But, what seems most important for the IRS and the public is that nonprofits establish and adhere to such policies and procedures, not that they report changes to them. Since questions are asked later about the existence of these policies and procedures – conflict of interest (line 3), whistleblower (line 4), document retention and destruction (line 5), and audit committee composition and procedures (line 9) – we recommend eliminating them here.

Line 3 **Conflict-of-Interest Policy:** We fully support continuing to ask whether organizations have a written conflict-of-interest policy (line 3a).

**Implementation:** Like IS and NCNA, we do not feel that the subsequent question (line 3b) about the number of transactions reviewed will provide meaningful responses. To better assess how nonprofits are managing conflicts of interests, we recommend asking whether all board and key staff members disclosed, in writing, any conflicts of interests with related organizations and individuals that they had during the reporting period.

Lines 4-5 **Sarbanes-Oxley Policies:** While we strongly encourage nonprofits to establish whistleblower and document retention and destruction policies, we do not believe that the Sarbanes-Oxley Act mandates written policies. Rather, it makes it a federal crime for any entity to retaliate against whistleblowers and to destroy documents if the organization is under investigation. The instructions may need to be rephrased to reflect this nuance.

Line 6 **Minutes:** We believe that nonprofit boards should maintain accurate and timely board meeting minutes. While we believe that records of committee meetings should also be up-to-date, we do not believe that they need to be maintained at the same level. (One exception is executive committees, which often have authority to act on behalf of the board between board meetings.) Committees play a supporting role in organizational leadership. Some committees (e.g., finance, compensation) are designed to bring recommendations to the full board for approval, so supporting materials and decisions would be later documented in full board meeting minutes. Other committees (e.g., fundraising, membership) are more operational and focus on programmatic activities.

In addition, documenting committee meetings as carefully as board meetings could diminish their productivity. Committees are work groups of the board, and their meetings are often less formal. Requiring committee meeting documentation on par with board meeting minutes could dampen the openness of conversations and would require more staff support. Therefore, we recommend that this question focus exclusively on board meeting minutes.

Lines 7 **Affiliates:** These two questions about local offices and policies and procedures governing them get at a larger issue of organizational relationships. We recommend that they be moved to the end of Part III in a separate heading about organizational relationships and include two additional questions from Part VII about joint ventures (line 11) and related organizations (line 12).

Line 8 **Financial Statement Preparer:** We believe that who prepares the financial statements is less important than whether the organization has an independent financial review or audit. To simplify the question, we suggest that it be rephrased as a check-off box, asking if the organization has an independent compilation, review, audit, or none. We also believe that the instructions should clarify that an audit is not legally required except under certain circumstances.

Line 9 **Audit Committee:** While we encourage organizations that have an independent financial audit to establish a separate audit committee, we have found an array of different structures for overseeing that process (e.g., having a joint finance and audit committee, using the executive committee to manage the audit). We recommend that it be created as a supplemental question (line b) to line 8, that the instructions explain that this is a best practice rather than a legal requirement, and that the glossary contain a definition to clarify what constitutes an audit committee.

Line 10 **Governing Body Review of Form 990:** We believe that a board should review the Form 990, but the timing can be complicated given filing deadlines and board meeting

schedules. We concur with IS's recommendation that the question be rephrased to focus only on whether the board reviewed the form.

Line 11 **Public Disclosure:** We appreciate the importance of transparency and public access to core documents. But this list creates the potential for confusion because it includes some documents that the law requires to be publicly disclosed and others that are optional. This could be clarified in the instructions and glossary for filers and through an asterisk and a note for the public.

**Organizing vs. Governing Documents:** One category – organizing and governing documents – is more complicated because articles of organization/incorporation and Form 1023/1024 are considered public documents but bylaws are not. While we believe that both could and should be shared, they are not treated the same under the law. This could be resolved by separating organizing documents from governing documents, clarifying what is legally required in the instructions, and defining them in the glossary.

**N/A:** The structure of this question with N/A defined as not applicable could be problematic when it comes to interpreting responses. N/A could mean that an organization does not have one of these documents because it chooses not to (such as an audit) or because it does not need to (Form 990-T). This could be resolved by adding another option that distinguishes “does not have” from “not made publicly available.”

**Conflict-of-Interest Policy:** Conflict-of-interest policies are not required by law, so there is no mandatory disclosure of them. We suggest that it could be removed from this list and, by doing so, may make the current check-off boxes acceptable.

**Financial Statements vs. Audits:** We worry that having both financial statements and audit report on this list is confusing. We recommend that organizations disclose their audited financial statements or their equivalent (e.g., compilations or reviews) and that the instructions and glossary clarify this.

## Part VII Statements Regarding General Activities

Line 11 **Investment Policies:** This question about investments in disregarded entities, joint ventures, and affiliated organizations focuses on the existence of a written policy. Therefore, we recommend placing it at the end of Part III under a separate heading about organizational relationships. We also recommend that it be rephrased as a two-part (line a and line b) question asking whether an organization has these relationships and, if so, whether it has a written policy. We also encourage the IRS to clarify whether it is looking for evidence of investment policies generally or only with respect to these structures.

Line 12 **Related Organizations:** This question about transactions with related organizations also focuses on the existence of a written policy. As with line 11 above, we recommend that it be moved to Part III and rephrased as a two-part (line a and line b) question asking whether an organization has these relationships and, if so, if it has a written policy.

**From:** [Ted Considine](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** New 990, Schedule M  
**Date:** Monday, August 27, 2007 1:17:04 PM  
**Attachments:**

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There is no provision for non-cash contributions of services, Legal or accounting.

***Ted Considine, CPA***

Considine & Considine

1501 Fifth Avenue, Suite 400

San Diego, Ca 92101-3297

**Voice** (619) 231-1977 x 115

**Fax** (619) 615-3861

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**CIRCULAR 230 DISCLOSURE:** To comply with Treasury Department regulations, we inform you that, unless otherwise expressly indicated, any tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties that may be imposed under the Internal Revenue Code or any other applicable tax law, or (ii) promoting, marketing or recommending to another party any transaction, arrangement, or other matter.

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**From:** [Chad Jacobson](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** (no subject)  
**Date:** Monday, August 27, 2007 6:37:23 PM  
**Attachments:**

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Rural Electric Cooperatives 501 c (12) are held accountable by the members they serve. Generation and Transmission Cooperatives are controlled by the Rural Electric Cooperatives(owners). Directors for the REC's are also appointed to serve on the G&T's and are compensated by the G&T who are accountable to no one. This situation has led to instances of excessive compensation being paid to directors and managers(CEO's) of REC's by the G&T.

In your effort to revise the Form 990 please take this issue into consideration by having all compensation whether it is paid by the G&T or the REC reported on the 990filed by the REC.



**From:** [Burris, J.Michael](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Comments on Proposed Schedule H  
**Date:** Tuesday, August 28, 2007 3:44:23 PM  
**Attachments:**

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No matter what the rules are, some few organizations will not follow them. When the IRS revises the 990 and develops the Schedule H, please do not punish all organizations for the sins of the few by making the process even more burdensome and costly to comply. My comments are as follows:

The proposed changes don't meet IRS' own goals of enhanced transparency, promotion of compliance and minimizing administrative burden and, in fact, could increase the risk that IRS would suspect non-compliance when none existed.

Reconfiguring financial and data record-keeping by January, 2008 to comply with new reporting, is virtually impossible, especially given that instructions, definitions and worksheets are not expected to be finalized until June, 2008.

In a departure from its usual practice, IRS did not conduct an analysis of the burden of complying with this new reporting scheme. If it had, it would have shown clear need for at least a two-year delay in implementation.

Please provide second draft of Schedule H in 2008, followed by review period and finalization of Schedule and instructions by Dec. 31, 2008 giving consideration to the following:

**1. Focus on five pillars of community benefit.** – We are opposed to any effort to change existing standard. The same factors used to apply to tax exempt status should be used to determine compliance; i.e.:

- ER open to all
- Independent board of trustees representative of community
- Open medical staff policy

- Care to all persons in the community
- Surplus funds to improve quality of care, expand facilities and advance medical training, education and research

## **2. Eliminate burdensome and misleading questions**

The chart on billing and collections included in Part II of the proposed Schedule H should be eliminated because the information it seeks has no relationship to the community benefit standard, the information required by the chart is burdensome and the data requested could be competitively sensitive.

## **3. Allow inclusion of community building activities as quantifiable community benefit**

Hospital activities have evolved to encompass an array of activities not anticipated when the community benefit standard was initially conceived. Examples include providing transitional housing for patients, maintaining and updating emergency preparedness and addressing environmental issues, among other things.

## **4. Allow for the full value of community benefit to be recognized by including both Medicare shortfalls and bad debt**

### Medicare

- Medicare underpayment should be counted – Medicare does not pay the full cost of care except for teaching facilities.
- Many Medicare beneficiaries are poor – more than 46 percent of Medicare spending is for beneficiaries whose income is below 200 percent of the Federal Poverty Level.
- There is no reason why Medicare underpayment shouldn't be treated the same way as Medicaid underpayment – both represent a cost of serving the community

### Bad debt

- A significant majority of bad debt is attributable to low-income patients who, for many reasons, do not complete the application necessary to determine eligibility for financial assistance. The 2006 Congressional Budget Office Report, Nonprofit Hospitals and the Provision of Community Benefits, found that “the great majority of

bad debt was attributable to patients with incomes below 200% of the federal poverty line.”

- Bad debt is a fact of life for hospitals that should be included in the quantification of community benefit.
- The IRS should recognize any reasonable method to count bad debt.

The IRS should permit (not require) the insertion of live links to additional information on a hospital Web site or allow attachments where the amount of space provided on Schedule H is not sufficient to fully describe the hospital’s activities, programs or policies.

Thank you,

Mike

J. Michael Burris  
Vice President, Chief Financial Officer  
Martha Jefferson Hospital  
434-982-7305 (Phone)  
434-982-7324 (Facsimile)

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**From:** [Denise Calabrese](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:** [abower@amcinstitute.org;](mailto:abower@amcinstitute.org)  
**Subject:** Comments regarding revision to Form 990  
**Date:** Wednesday, August 29, 2007 11:07:50 AM  
**Attachments:** [Letter to IRS re Form 990.pdf](#)

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Good day -

Please take into serious consideration the letter that I have attached to this e-mail regarding my comments on the revision to the Form 990. If you have any questions at all, please don't hesitate to contact me.

I appreciate your taking time to review this information.

Sincerely,

Denise R. Calabrese, Owner  
Calabrese Management, Inc.  
4305 North Sixth Street, Suite A  
Harrisburg, PA 17110  
(717) 238-9989  
[www.calabresemgt.com](http://www.calabresemgt.com)



**Professional Results  
Personalized Attention  
International Experience**

4305 North Sixth Street, Suite A, Harrisburg, PA 17110 ♦ (717) 238-9989 ♦ [www.calabresemgt.com](http://www.calabresemgt.com)

August 29, 2007

Form 990 Redesign  
ATTN: SE:T:EO  
1111 Constitution Ave., NW  
Washington, DC 20224  
[Form990revision@irs.gov](mailto:Form990revision@irs.gov)

To whom it may concern:

Calabrese Management is an Association Management Company located in Harrisburg, PA. We have been in business since January 2001 and provide full service management to non-profit organizations. Some of the services we provide include database management, leadership development, event management, phone coverage, mailing services, communication and marketing, and any other services that a non-profit organization requires. Our firm manages 8 trade associations that could not afford to pay a full-time office staff to run the business of their organization. For more detailed information about our company, please visit our website at [www.calabresemgt.com](http://www.calabresemgt.com).

I personally applaud the IRS' efforts to overhaul the Form 990 and to increase transparency. I am also very glad to see that the new 990 does not confuse the fees paid to management companies with the compensation paid to my employees. In particular, I am pleased that the statement in the current Form 990 instructions regarding listing the management fee as the compensation of the management company employee has been dropped altogether.

Part II, Section B of the revised 990 (questions 5a, 5e, and 5f) clearly and adequately addresses and ensures disclosure of the fact that an officer, director, or other "insider" of the association also serves in a leadership or ownership position with a third party doing business with the association, including a management company.

I strongly urge the IRS not to make any further changes that might compel the disclosure of a management company employee's personal salary on the Form 990, which is of course public, or attributes any part of the management fee to the management company employee.

Should you have any questions or wish to discuss this further, I can be reached at 717-238-9989 or via e-mail at [denise@calabresemgt.com](mailto:denise@calabresemgt.com). Thank you for your consideration of this letter.

Sincerely,

Denise Calabrese, Owner  
Calabrese Management, Inc.

**From:** [Madeleine Crouch](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Association Management Companies and Changes to Form 990  
**Date:** Wednesday, August 29, 2007 11:11:02 AM  
**Attachments:** [image002.jpg](#)

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I am the owner of an association management company in Dallas, Texas. I have been employed in this field for nearly twenty years, and many members of my loyal and hardworking staff have been with the company nearly as long. We provide headquarters services to 12 non-profit associations in the fields of education, manufacturing, retailing, language therapy, and music and the visual arts. Our client associations have grown too big to be completely managed on a volunteer basis, but are not large enough to hire their own staff and rent and furnish an office. We provide a permanent headquarters location, continuity, and general administration. This allows the volunteer officers and directors of our client associations to do what they do best, providing professional development, education and resources to their members.

Our company is an independent business, and we make it clear to our association clients that my staff members are not their employees. I set my company's policies and procedures, hours of operation and manner of conducting business. For a negotiated monthly management fee, we provide agreed upon services such as database management, bookkeeping and meeting planning. While I do assign a particular staff member to be the main contact person for an association, every one of our staff does work for every one of our clients at some point during a calendar year. At our company we work as a team to provide services to our client associations while remaining completely independent ourselves.

Our clients depend on the work we do for them in order to successfully deliver a meaningful portfolio of benefits to their members, and we are proud to have developed many long-term, responsible relationships with our

client associations. Our clients hire us to help keep their missions on track.

As I do with my own company's relationships with our client associations, we aim for complete transparency, and we agree that the Form 990 should strive for the same results.

We are glad that the new 990 recognizes that the fees paid to my management company are independent of the salaries I pay my employees. We are also glad that the statement in the current Form 990 instructions regarding listing the management fee as compensation for my employee who might work on the account of a client association has been dropped altogether.

Part II, Section B of the revised 990 (questions 5a, 5e, and 5f) is a safeguard already in place that requires disclosure if an officer, director or manager of an association is also serving in a leadership/ownership position with a third party doing business with the association, such as a management company.

I respectfully ask that the IRS not make any further changes that would require disclosure of an employee's personal salary on the Form 990, or attribute any part of the management fee to an employee. Again, my company and its operations are completely, contractually independent of our client associations' operations. We are not employees of our clients, but do provide high-quality, valuable, professional services in the same manner as other agencies (legal, advertising, or accounting.) We conduct our business in the manner we deem most efficient to accomplish our clients' goals, and we do so within the arena of our own unique corporate culture.

Sincerely yours,

Madeleine Crouch



Madeleine Crouch & Co., Inc.

**From:** [Tami Battaglio](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Comment  
**Date:** Wednesday, August 29, 2007 11:15:39 AM  
**Attachments:** [E+S 803.jpg](#)

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I am the Treasurer for small 501 c 3 organization. Mine is a volunteer position and a local CPA has donated his services to us over the years. This is already a time consuming process for both of us. Are you assuming that the non-profit will fill out the new section and that the accountant will continue as he has in past or are these questions better answered by the person completing the tax return? How much additional time will it take? I ask because I'll bet we will no longer have his services donated if additional time involved or if we have to spend time together to fill out the forms. At present, I just drop off all the info and he completes the task at his leisure. If this service is no longer donated, it would have a huge impact. I'm sure this will be the case for many small non-profits who must fundraise and depend on the gratis services of others.

Sincerely,  
Tami Battaglio

--



Tami Battaglio  
Elkinson + Sloves, Inc.  
784 Farmington Avenue  
Farmington, CT 06032  
860-674-9902  
860-674-0896 (fax)



**From:** [Melany Brown](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Form 990 Comments  
**Date:** Wednesday, August 29, 2007 1:54:48 PM  
**Attachments:** [IRS 990 letter Aug2007.doc](#)  
[IRS 990 letter Aug2007.pdf](#)

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Please see attached document (in 2 formats) for comments regarding the Form 990 revisions.

Thank you.

**Melany Brown**

Executive Director

Executive Alliance

206-328-3836 | [www.exec-alliance.org](http://www.exec-alliance.org)

Advancing a Powerful Nonprofit Sector

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August 29, 2007

Form 990 Redesign  
ATTN: SE:T:EO  
1111 Constitution Ave., N.W.  
Washington, DC 20224

By e-mail to [Form990Revision@irs.gov](mailto:Form990Revision@irs.gov)

Thank you for the opportunity to comment on the proposed revisions to Form 990.

Executive Alliance is an educational organization supported by nearly 200 public charities, associations, foundations and individuals with an interest in strong and successful nonprofit organizations. Its programs include conferences, peer coaching circles, workshops, online and imprint communications, and small group conversations around issues of nonprofit excellence, management, accountability and effectiveness. These activities are concentrated in the central Puget Sound region of Washington state and are often conducted in collaboration with other centers serving nonprofits in other nearby areas.

The Executive Alliance Public Policy group has examined the proposed new Form 990 and engaged in a lively and probing conversation about this project. We strongly support the goals expressed by the Internal Revenue Service as its guiding principles.

We are concerned that two of the proposed changes may lead to damaging misunderstandings and impair the usefulness of the new Form 990 in meeting those goals.

First, we urge that the ratios requested on lines 24, 25 and 26 of the front page of the Core Form be removed. These ratios are difficult to calculate and subject to troubling misinterpretation when viewed by people who are not versed in the complexities of nonprofit operations and accounting. The space currently reserved for these ratios could be put to better use for a brief presentation of the mission or key goals of the filing organization.

Second, we ask that Part III of the Core Form – dealing with Governance, Management and Financial Reporting – be re-arranged and re-labeled so that the questions which reflect preferred practices in the field are clearly identified as such while the two questions that are directly related to the enforcement responsibilities of the IRS –

question 2 and the fourth and fifth lines of question 11 – are presented separately. We have no doubt that organizations that embrace the practices suggested by the questions in Part III are less likely to encounter difficulties or lapses in their operations. But it is nonetheless important that an official government form not convey, even by implication, the suggestion that these practices are universally required. The risk is great that groups without a genuine commitment to good management will conform to the minimum extent necessary to be able to answer “yes” in all cases without addressing the underlying management challenges necessary to make an organization-wide commitment to performing in this way.

Again, we want to express our appreciation for the effort underway by the IRS to develop a more effective form for reporting on the operations and financial affairs of organizations exempt from federal tax by virtue of their charitable purposes. We are pleased to have been offered an opportunity to comment on the proposed new form and submit our requests for changes from the draft proposals in the hope that we can contribute to the design of a Form 990 that will serve America’s nonprofits well for many years to come.

Sincerely,



Melany Brown  
Executive Director

**From:** [Tom Willy](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Comments on Proposed IRS form 990 Changes  
**Date:** Wednesday, August 29, 2007 3:48:46 PM  
**Attachments:**

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Dear Sirs,

As a practitioner, I offer the following comments on your extensively revised forms and instructions:

### **Comments on Proposed IRS Form 990 Changes**

#### **BASED ON DRAFT FORMS, SCHEDULES AND INSTRUCTIONS**

##### **Form 990 – Core Form**

- Part I – line 26 -- This is a summary of Schedule G and it suffers from the problems of that schedule – see comments below concerning Schedule G.
- Part III – line 2 – This question asks about "significant" changes but the instructions call for reporting a great number of items which are more mundane than significant, for example: number of directors, number of officers, policies regarding whistleblowers, documents retention, composition of audit committee. These more often than not will be general operating matters that don't deserve this level of reporting. In addition to being unnecessarily intrusive, this reporting also has the potential to reduce the value of the 990 by cluttering it up.
- Part III – lines 3 through 6 and 8 through 11 are apparently someone's idea of "best practices" and seem neither mandated by the tax law nor justified as IRS mandatory reporting items. These questions have the IRS taking over the role of the BBB and AIP and other charity review agencies. This is unjustified over-reaching. For example, question 11 inquires about various

documents, but the only one that the tax law requires charities to publish is the 990; by including the other documents the IRS is using the force of mandatory tax reporting to push charities toward someone's idea of best practices – without legal basis for such coercion. Enough of this "nannyism."

- Part V – lines 5 through 9. It seems confusing and potentially misleading to have 2 different regimes and labels for reporting salaries, pension contributions and employee benefits for officers & key employees vs. other employees. By using different labels and rules of inclusion it creates potential for misreading what a charity is reporting.
- Part IX – line 2 -- Asks the organization to describe its most significant program service accomplishment of the year. This may be difficult for larger organizations with many programs, service areas and accomplishments. Why is this here anyway? It is not called for by the tax code.
- Part IX – line 3 (a – c) – Asks for description of program accomplishments for 3 largest services. The instructions direct description through measurements, such as clients served, etc, and also direct the organization be clear and complete in its description --- but the organization is directed not to provide an attachment! Not all program accomplishments can be completely described, including objectives, measurements, etc. in the space provided in the form.

### **Schedule F – Statement of Activities Outside the U.S.**

- Part I – Line 4 – The organization is asked about public discussion of its activities outside the U.S. This seems to be another example of using the tax form to foster someone's idea of "best practices". Best practices ought not be intertwined with tax law requirements and mandatory filings.

### **Schedule G – Supplemental Information Regarding Fundraising Activities**

- Part I – Line 1b, columns iii, iv & v utilize a mechanical formula and potentially misleading labels to create confusion and inaccuracy. The columns and instructions improperly equate several different situations. The different situations include the following:

(a) a professional fundraiser collects the contributions, pays himself and turns the balance over to the charity;

(b) a professional fundraiser collects the contributions and turns the balance over to the charity, and the charity then pays the fundraiser the agreed fee;

(c) the professional fundraiser helps the charity with the campaign, but never touches the contributions – they go directly to the charity, and the charity pays the fundraiser an agreed percentage or other success related fee; and

(d) the professional fundraiser helps the charity with the campaign, but never touches the contributions – they go directly to the charity, and the charity pays the fundraiser an agreed fee that is not tied to or determined by the amount of contributions, but is based on performance criteria such as number of letters mailed, etc., or on a fixed fee.

In example (a) the proposed form and formula accurately report what happened. But in the other examples, the form becomes increasingly misleading and inaccurate. In all the other examples, column "v" is misleadingly labeled because in fact 100% was paid to the charity, but the formula doesn't allow for that answer.

Additionally, this creates a serious reporting problem for charities, especially in situations such as (c) & (d) above. In those situations the charity has received 100% of the contributions and that is what it will and should report to donors, States, charity monitoring groups, etc. This form with its labels makes the charity look like it is being deceptive when it is being truthful and accurate.

An additional problem is that this form assumes all campaigns are alike and that they are all one time solicitations resulting in one time gifts. It does not accurately reflect situations where the contributions will come over time, for example, building campaigns, monthly giving or sponsor campaigns, etc. In these situations the

cost of a campaign may occur in different years than the years in which the bulk of the contributions generated by that campaign are received.

This type of reporting by fundraiser and by activity could be burdensome to the charity if that is not how it keeps its books.

This whole section (line 1b and its subparts) appears to be an effort by the IRS to take over the role of State regulators and is not required by or called for in the tax code.

- Part I -- Line 3 requires a list of all jurisdictions in which organization is authorized to conduct fundraising – including states, cities and other local jurisdictions. This is clearly burdensome and is not required or authorized by the tax code. This is another example of trying to usurp the role of the states and charity monitors. This clearly does not minimize the administrative burden on the filing organization.

### **Schedule J – Supplemental Compensation Information**

- Line 1, part (E) – reports nontaxable expense reimbursements (expense reimbursements made under an accountable plan). Why would these nontaxable legitimate business expenses be reported on a compensation schedule? It is burdensome to the charity and doesn't provide meaningful information.

International organizations and others with widespread programs will have a lot of travel related expenses. It may be a big number but doesn't say anything about compensation.

Including nontaxable legitimate business expenses together with compensation reporting is troubling and almost deceptive in concept. This column certainly has the potential to be misleading to readers and create confusion about compensation.

- Line 3 – Why the question about first class travel? Why are these various

different categories of expenses lumped together? Clearly club dues could include service organizations (such as Rotary or Lions) as well as country clubs – what valuable information does either the Service or the public receive from this broad brush approach?

Thank you for your consideration.

Thomas R. Willy  
Van Osdol, Magruder, Erickson & Redmond, P.C.  
Attorneys at Law  
2400 Commerce Tower  
911 Main Street  
Kansas City, MO 64105  
(816) 421-0644  
Fax: (816) 421-0758



**From:** [Bill Burns](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Form 990 Comments  
**Date:** Wednesday, August 29, 2007 4:25:34 PM  
**Attachments:**

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IRS:

The IRS and its new Form 990 are setting the stage to micro-manage nonprofit associations.

It is also granting public and media access to sensitive information that will be publicly reported in a sensational manner without proper background information or understanding.

Frankly, I am stunned to hear that you intend to proceed so quickly to adopt and implement the new Form 990 despite the tactful and logical request from the American Society of Association Executives (ASAE) to delay its adoption until the association community has had a fair and legitimate opportunity to review and comment.

What's the rush? Why does the IRS continue to position itself as an obstacle rather than a partner? Why do you simply not punish organizations that violate the criteria of their exemptions rather than install this burdensome, micro-managing new form on everyone? Why are you creating more work for accountants rather than relieving the burden upon under-staffed nonprofits?

Your probable denial of the ASAE request because of "a technology window and budget" is self-serving and not in the interests of those your office serves. Shame on you!

Bill Burns, CAE  
Executive Director  
Association for Play Therapy  
2060 N. Winery Ave., #102  
Fresno, CA 93703 USA

**From:** [Sharon & Mike Sundy](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Suggestions  
**Date:** Wednesday, August 29, 2007 6:20:00 PM  
**Attachments:**

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Hello,

Thanks for asking for the public's input. I believe all charitable and/or non-profit organizations should be COMPLETELY transparent, in DETAIL. Include all forms of compensation to employees, particularly the executives. Include all assets, what percentage of assets are used for what purposes, all related organizations, all joint ventures, etc. Every expenditure should be itemized in detail. Donations over \$500 or more than one donation from the same party that totals more than \$500 should be itemized in detail. This completed form should be REQUIRED to be mailed to all donators, no matter how small. Some people have donated to these organizations for years, yet only receive a "newsletter saying how great the organization is doing and can we please have more money". They never see the REAL figures as to where the money is going. It is supremely unfair for the average taxpayer to hear that these large corporations pay no taxes and spend the money donated by people like myself irresponsibly and not in the manner in which they portray to the general public.

Thank you,  
Sharon Sundy  
Concern citizen

**From:** [Linda Christopher](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** IRS Form 990 Review Feedback  
**Date:** Thursday, August 30, 2007 2:45:01 PM  
**Attachments:**

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IRS Form 990 Revision Project:

I am writing today as an association management professional and director of an organization that provides management services to 9 national and international nonprofit organizations within the ophthalmology industry. San Francisco Association Management Services has been in existence since 1976 and has an annual revenue of around \$1.7 million.

Form 990 has been a very useful form for our industry although it has presented some challenges. I believe it is important for nonprofits to be transparent when it comes to revealing information in financials and look forward to a revised form that makes this process easier.

I do have a few comments to offer. First, it's great that the new 990 does not confuse the fees paid to management companies with the compensation paid by AMC's to their employees, and, in particular, it is important that the statement in the current Form 990 instructions, regarding listing the management fee as the compensation of the AMC representative who works for the association, has been dropped altogether from the new 990.

Also, in Part II, Section B of the revised 990 (questions 5a, 5e, and 5f) you clearly and adequately addresses and ensure disclosure of the fact that an officer, director, or other "insider" of the association also serves in a leadership or ownership position with a third party doing business with the association, including a management company.

I urge you to please not make any further changes that might compel the disclosure of an AMC employee's personal salary on the Form 990 or attributes any part of the management fee to the AMC employee. While I believe that transparency is important, I also believe that protecting the privacy of the employee's personal salary is important.

I appreciate the opportunity to send you my comments on the new form, I believe

that through a collaborative effort we can create a new Form 990 that accomplishes all of our goals and improves the process for making such information public.

Most sincerely,

Linda

Linda E. Christopher, MPA, CAE

Director, SF Association Management Services & The Match

655 Beach Street, San Francisco, CA 94109

**From:** [Lisa Gilden](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:** [Schultz Ronald J;](#)  
**Subject:** CHA Initial Comments on Redesigned Form 990  
**Date:** Thursday, August 30, 2007 3:01:27 PM  
**Attachments:** [8-30-7 interim letter to IRS on 990.doc](#)

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Please see attached the initial comments of the Catholic Health Association (CHA) on the Redesigned Form 990. We will be submitting more detailed comments on the Form 990 prior to the September 14th deadline.

Thank you.

Lisa J. Gilden, Esq.  
Vice President, General Counsel  
Catholic Health Association of the United States  
1875 I Street, N.W., Suite 1000  
Washington, D.C. 20006-5409  
Main: (202) 296-3993  
Direct: (202) 721-6319  
Fax: (202) 296-3997  
Email: \_\_\_\_\_

This message originates from the office of The Catholic Health Association of the United States.

It contains information which may be confidential or privileged and is intended only for the individual or entity named above. It is prohibited for anyone else to disclose, copy, distribute or use the contents of this message. All personal messages express views solely of the sender, which are not to be attributed to The Catholic Health Association of the United States, and may not be copied or distributed without this disclaimer. If you received this message in error, you may either reply to this email message and delete it from your system, or notify us immediately at (202) 296-3993.

August 30, 2007

THE  
CATHOLIC HEALTH  
ASSOCIATION  
OF THE UNITED STATES

Mr. Ron Schultz  
Internal Revenue Service  
Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, DC 20224



Dear Mr. Schultz:

The Catholic Health Association of the United States (CHA) is in the process of finalizing our detailed comments on the redesigned Form 990. We plan to have those comments to you in advance of the September 14<sup>th</sup> filing date. However, in the interim, we thought it important to be on record in support of the IRS position in the proposed Schedule H that Medicare shortfalls and bad debt should not be counted as community benefit.

The reasons for excluding Medicare shortfalls are as follows:

- If there are programs for seniors that respond to identified community needs, generate losses and/or meet other criteria, they can be included as “subsidized health services” in the reporting framework
- Serving Medicare patients is not a differentiating feature of tax-exempt hospitals; for-profit hospitals compete aggressively for these patients
- The federal government and MedPAC are unlikely to consider Medicare shortfalls as community benefit because Medicare rates are analyzed and adjusted on a regular basis. Including Medicare shortfalls would place different federal agencies at odds regarding the adequacy of Medicare payment
- Access problems for Medicare patients have not yet been observed by MedPAC (*If, at some point, access problems emerge for Medicare patients, the rationale for including Medicare services as community benefit increases*)
- Counting Medicare shortfalls as community benefit is met with skepticism by policy makers and others, and significantly decreases the credibility of tax-exempt hospital community benefit report

The reasons for excluding bad debt are as follows:

- IRS Form 1023 indicates that to qualify for federal tax exemption, hospitals must “distinguish between charity care and bad debts”

WASHINGTON OFFICE  
1875 Eye Street, NW  
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Phone 202-296-3993  
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[www.chausa.org](http://www.chausa.org)

- If there are many patients who are truly unable to pay and whose accounts are being written off to bad debt, then perhaps charity care policies and/or billing practices should be adjusted (*In fact, over the past few years, many Catholic hospitals have changed their policies and improved their ability to identify patients eligible for financial assistance*)
- If community benefit includes all “uncompensated care” then hospitals with more generous charity care policies will not be differentiated from those with less generous policies
- Hospitals are now able to take additional steps to separate bad debt and charity care:
  - HFMA Principles & Practices Board Statement 15 allows patient accounts to be assigned to charity on the basis of incomplete information. There is no longer a need to require "perfect" documentation
  - Technology solutions are emerging that help hospitals qualify patients for financial assistance, even if there is incomplete information
- Some consider bad debt a “cost of doing business” that affects taxable and tax-exempt organizations
- Adding in bad debt would inflate the community benefit calculation, thereby jeopardizing the credibility of the measure.

While we understand that there are groups advocating for inclusion of the Medicare and bad debt in the community benefit calculation, we continue to believe that it is inappropriate to include these two elements. In our view, not all "uncompensated care" is community benefit.

Thank you for the opportunity to comment on the redesigned Form 990. We look forward to continuing to work with the IRS on ways to strengthen our country’s nonprofit hospitals.

Sincerely,

A handwritten signature in cursive script that reads "Sister Carol Keehan".

Sister Carol Keehan  
President and CEO

**From:** [Jay Hauck](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Form 990 Redesign  
**Date:** Thursday, August 30, 2007 3:11:04 PM  
**Attachments:**

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Form 990 Redesign  
ATTN: SE:T:EO  
1111 Constitution Ave., N.W.  
Washington, DC 20224.

To whom it may concern:

I write to comment on the proposed Form 990 revision on behalf of Hauck & Associates, Inc., an association management firm.

## **Background**

Hauck & Associates, Inc., based in Washington, DC, has managed a number of well-established trade associations and professional societies since its founding in 1974. Our management services have included governance and board support, financial management, strategic planning, conference planning, membership development and database management, public relations, government relations, and other services as our clients have needed them. Our clients have included trade associations in agribusiness, manufacturing, health care, insurance, accounting and legal, and other sectors. Our employees,



who receive a paycheck from us, not from our clients, serve in various capacities, including as chief staff officers (e.g, Executive Director or Executive Vice President) as well as membership coordinators or directors of meetings to our client associations.

The association management company (hereinafter “AMC”) model provides much advantage to the small or mid-sized association. By hiring an AMC, they hire no personnel, lease no office space or equipment, and therefore they avoid many of the associated time-consuming challenges – a substantial advantage to board members who are, after all, volunteers.

AMC clients are able to leverage economies of scale, as well as substantial expertise, that would be unavailable to them in a small-staff, stand-alone headquarters.

It should be emphasized that the contractual relationship we have with any client is at all times an arms-length one. All our clients have signed contracts with Hauck & Associates for the provision of management services and personnel to serve them in exchange for a fee, which has been arrived at through negotiation. Even where a shareholder of our firm is the Executive Director of a client, the management fee is still negotiated with the Board of the client.

### **Form 990 comments – positive changes**

In general, we think the existing form 990 needed simplification, and financial information about not-for-profit organizations should be transparent. We believe the IRS has made some progress in this regard with the proposed revision.

With respect to the relationship between not-for-profits and AMCs, we also are pleased that the proposed revision does not confuse fees paid to AMCs with compensation paid by AMCs to their employees. It is clear the IRS understands that the fee paid by a not-for-profit to an AMC has no direct correlation to the compensation an AMC employee might receive working to serve that not-for-profit.

Part II, Section B of the revision (in particular questions 5a, 5e and 5f) we believe provide adequate disclosure of the relationship between an officer, director or other “insider” and the leadership or ownership position of third party, including an AMC.

### **Form 990 comments - concerns**

We are concerned about some comments the IRS has received or might receive that seem to malign the AMC model with apparently little understanding of what we do or how we function.

Accordingly, we would like to make plain that we would not want the IRS to make further changes that might compel the disclosure of an AMC employee’s personal salary (currently non-public) on the Form 990, nor that might attribute a part of the management fee to an AMC employee’s income. What an AMC pays an employee is not, and should not be, public information, any more than what a law firm pays a lawyer need be public.

Another concern we would like the IRS to consider is the considerable extra time and expense completing the new revision will take for associations that have limited financial resources. Perhaps it would make sense to have a whittled-down version of the 990 for associations with budgets below a certain dollar threshold, with the threshold adjusted annually for inflation. We would envision this to be more extensive than the current 990EZ but less burdensome and complex than the proposed revision.

### **Echo of AMC Institute and ASAE comments**

Finally, we would endorse comments that have been made or will be made to the IRS from the AMC Institute (the trade association representing association management companies) and ASAE, the American Society of Association Executives, with respect to the 990 revision.

### **Request for extension of time to comment**

We would further echo comments of ASAE that the time provided to comment is simply insufficient considering the complexity of the form. More time is needed for all parties affected to fully evaluate the form and its ramifications. It would be unfortunate if mundane technology challenges were allowed to trump adequate notice and opportunity to comment fully on what is a very complex and extensive revision to a very important government function.

Feel free to contact me if you have questions.

--

Jay Hauck, JD, CAE  
Vice President

**Hauck & Associates, Inc.**

**Professional Association Management**

1255 23rd St., NW

Suite 200

Washington, DC 20037

+1.202.452.8100 phone

+1.202.833.3636 fax

<http://www.hauck.com>

**From:** [Susan Cabrera](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Form 990 comments  
**Date:** Thursday, August 30, 2007 3:37:17 PM  
**Attachments:** [image001.jpg](#)  
[image003.gif](#)

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Dear Sir – I am writing to thank you for the recent changes to the 990 form and the IRS's efforts to increase transparency in the non profit world. As an owner of an Association Management Company, we have the privilege of working with nine professional societies, both ( c ) 6 and ( c ) 3. These societies are mostly medical and legal subspecialties with the addition of a few trade associations. The associations we manage look to an AMC to run their affairs much like a hired CEO would do. AMR has been in business for over 8 years and has grown steadily, increasing its client list annually.

I am in independent business owner and not an employee of any of the associations we manage. Instead, they contract with my company and I am responsible for the hiring and management of appropriate staff. I would like to assure you that AMC's function as for profit corporations and are not a device for non profit executives to hide their compensation. My company reports annually to the IRS and files all the appropriate forms, payroll taxes, etc.

I am pleased that the new 990 does not confuse the fees paid to management companies with the compensation paid by AMC's to their employees. I am particularly pleased that the statement in the current Form 990 instructions regarding listing the management fee as the compensation of the AMC representative who works for the association, has been dropped altogether. In this latest draft of the Form 990, Part II, Section B of the revised 990 (questions 5a, 5e, and 5f) clearly and adequately addresses and ensures disclosure of the fact that an officer, director, or other "insider" of the association also serves in a leadership or ownership position with a third party doing business with the association, including a management company.

As an owner of an AMC, I urge the IRS not to make any further changes that might compel the disclosure of an AMC employee's personal salary on the Form 990, which is of course public, or attributes any part of the management fee to the AMC employee. As in any corporation, employee salaries should remain confidential information.

Thank you for your consideration of these changes.

Regards,

Susan Cabrera

Susan Cabrera  
President  
Association Management Resources  
PO Box 13978  
Tallahassee, FL 32317  
850/656-8848

*Our mission is to manage our clients' organizations, exceed their expectations, and provide superior customer service in an ethical and professional environment.*

*AMR is an accredited member of the International Association of Association Management Company Institute (AMCI) and an active member of the American Society of Association Executives (ASAE).*

**From:** [Rick Hoffman](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:** [Bunn, M. Elizabeth; Werking, Phil;](#)  
**Subject:** FASB/SFAS 116/117  
**Date:** Thursday, August 30, 2007 3:39:47 PM  
**Attachments:**

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This is not so much a comment on the draft redesign of the 990 as it is a question. The current instructions contain the paragraph:

*"While some states may require reporting in accordance with SFAS 117, the IRS does not (see General Instruction E). However, a Form 990, or Form 990-EZ, return prepared in accordance with SFAS 117 will be acceptable to the IRS." (See page 33.)*

Based on this paragraph it appears that reporting in accordance with SFAS 117 is not currently required for any non-profit.

I do not see the same verbiage in the new instructions and am seeking clarification as to if and under what circumstances a nonprofit is required to follow SFAS 117.

Also I see no change in the requirements for following SFAS 116 and seek you confirmation.

Any assistance you can provide will be appreciated.

**From:** [lauries](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Input on Draft Form 990  
**Date:** Thursday, August 30, 2007 3:43:12 PM  
**Attachments:** [Input on Proposed 990 Changes from AIP.8.29.07.Final Draft.doc](#)

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Attn: IRS

To whom it may concern:

Please find our input on the Draft Form 990. I have included our letter as an inline text, and have also attached it as a Word document for your convenience. Please contact me at (773) 529-2300 with any questions or concerns.

Sincerely,

Laurie Styron  
Analyst  
American Institute of Philanthropy

August 29th, 2007

Internal Revenue Service  
Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, DC 20224

RE: Proposed Changes to IRS Form 990

To Whom It May Concern:

As a nationally prominent charity watchdog organization, we are in a unique



position to provide insight into the potential positive, as well as negative impacts that may result if certain proposed changes to the IRS Form 990 are put into effect. We provided input last month with respect to the omission of the Joint Cost reporting that is currently required on page two of the form. We would now like to bring to your attention another omission from the proposed Form 990 that we believe will have a negative impact on the public's ability to access the information they need to make informed giving decisions.

The current Form 990, page five, parts IV-A and IV-B, require organizations to reconcile any differences in total revenue and total expenses that exist between their Form 990 and audited financial statements reporting. The new form, if put into effect, will not require such a reconciliation. The financial information on the tax form is not audited and could be based on faulty accounting logic or even fictitious information. Therefore, it is vitally important that a nonprofit be required to explain why its finances as reported on the Form 990 are different than those on its audit. We believe omitting this requirement would be a great disservice to the public, as it reduces the accountability of many charities that could use such an omission to further hide or skew the reporting of their finances on their tax forms.

Every charity that properly fills out its Form 990 ought to be able to account for reporting differences with its audited financial statements. Requiring that a reconciliation of the audit and tax form be made available for public review does not impose any additional or undue burden on the charity and provides the public with the opportunity to review information that the charity already has, or should have available.

The reconciliation section of the current Form 990 provides important information with respect to a charity's accounting for unrealized gains, donated goods and services, adjustments from prior years, and other information that can be cross-checked against audit reporting. Without this reconciliation, the public will be at a great disadvantage when trying to determine how efficiently a charity is using its resources, and whether or not a particular group is worthy of their hard-earned, donated dollars.

There are many worthy charities dedicated to transparency in their financial reporting, and that welcome the opportunity to provide donors with information on how their programs are furthering their mission and benefiting the public interest.

There are many other charities that do little more than allow donated goods of questionable value to flow through their books while using most of the cash donations they receive for fundraising and other overhead. The public should have the opportunity to verify the claims of charities by having access to important financial information like the reconciliation on page five of the current Form 990.

The more donated dollars that end up in the hands of unethical or highly inefficient charities the less resources there are available for those highly effective charities that use their donations efficiently in carrying out their programs. Omitting the reconciliation requirement would only make it more difficult for donors to separate the good charities from the bad. It may also encourage unethical or highly inefficient charities to further skew their reporting in their own favor, to the detriment of the donating public, as well as to the recipients of charitable services. As a leading charity watchdog and advocates for wise charitable giving by the donating public, AIP strongly encourages the IRS to seriously reconsider omitting the reconciliation requirement from the Form 990.

Thank you for taking the time to review our concerns. I encourage you to contact me if I can be helpful in providing additional insight as to how Form 990 information is used by the public, and how changes to the current form will impact the public's ability to hold charities accountable. These proposed Form 990 changes, if adopted, will have sweeping and long-lasting effects within the nonprofit sector, and it is important that they result in more accountability to the public, not less.

Sincerely,

Daniel Borochoff  
President  
American Institute of Philanthropy  
(773) 529-2300

**From:** [Pam Luenz](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:** [Pam Luenz;](#)  
**Subject:** Currently exempt organizations  
**Date:** Thursday, August 30, 2007 4:45:11 PM  
**Attachments:**

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It seems a bit ridiculous that the government is asking for organizations which have less than \$25,000 annual income to have to file (as is the current plan) and thereby INCREASE the paperwork/computer work load to some government office with annual filings. Why create more snafus in the government???

From the Treasurer of the Lafayette Indiana Historic Auto Club, which has less than \$5,000 annual income to report.

Pam Luenz, Treasurer  
4550 South 175 West  
Lafayette, Indiana 47909

**From:** [lauries](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:**  
**Subject:** Input on Draft Form 990  
**Date:** Thursday, August 30, 2007 5:36:17 PM  
**Attachments:**

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August 29th, 2007

Internal Revenue Service  
Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, DC 20224

RE: Proposed Changes to IRS Form 990

To Whom It May Concern:

We understand and that the section of the Form 990 that reconciles Form 990 and Audit reporting of total revenue and expenses has been moved from page five to schedule D. We are pleased to see that the IRS has continued to include this important requirement in the Draft Form 990, as it serves as an important disclosure tool for providing much needed information to the public. Please disregard our letter of earlier today regarding the omission of the reconciliation requirement.

Sincerely,

Daniel Borochoff  
President  
American Institute of Philanthropy  
(773) 529-2300

**From:** [TotalEventAssnMg](#)  
**To:** [\\*TE/GE-EO-F990-Revision;](#)  
**CC:** [abower;](#)  
**Subject:** Re: Form 990 Redesign  
**Date:** Thursday, August 30, 2007 6:17:04 PM  
**Attachments:**

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ATTN: SE:T:EO:

Thank you for the opportunity to respond to the proposed changes to Form 990. I applaud your efforts to overhaul the Form 990 and to increase transparency in the reporting process.

Total Event & Association Management, Inc. (TEAM) provides Association Management Services and is an Association Management Company (AMC) to three non-profit trade associations. Basically, we are independent staff for our client non-profit associations and offer services such as office administration, financial administration, membership administration, meeting and conference management, as well as coordination of publications and communications. TEAM's clients include: the American Membrane Technology Association (AMTA), Southeast Desalting Association (SEDA) and the Southwest Membrane Operator Association (SWMOA).

- AMTA's vision is to solve water supply & quality issues through the widespread application of membrane technology; and their mission is to promote, advocate and advance the understanding and application of membrane technology to create safe, affordable and reliable water supplies, and to treat municipal, industrial, agricultural and waste waters for beneficial use. This is a national association and represents those located within United States who are interested in the membrane technology industry and is affiliated to the International Desalination Association (IDA).
- SEDA is dedicated to the improvement of the quality of water supplies through desalting, reuse and other water sciences and our members are concerned with design, research, and development, equipment manufacture, operation and maintenance, environmental regulations and legislation. The objectives of this organization include the promotion, both to the public and to elected officials, of available technologies that improve water quality; education, training and certification of plant operation personnel;

communication within the membership; development of meaningful interface with regulatory agencies; technology transfer; and protection of the environment. The Association represents the Southeast United States region including but not limited to North Carolina, South Carolina, Virginia, West Virginia, Georgia, Mississippi, Alabama, Tennessee, Florida, Kentucky and the Caribbean.

- SWMOA has very similar mission and goals to the SEDA; however, this organization represents the Southwest United States region including but not limited to Arizona, California, Hawaii and Nevada.

As an AMC, I am very pleased that the new Form 990 does not confuse the fees paid to management companies with the compensation paid by AMC's to the AMC's employees, and, in particular, that the statement in the current Form 990 instructions regarding listing the management fee as the compensation of the AMC representative who works for the association, has been dropped completely. Please note, that in Part II, Section B of this revised Form 990 (questions 5a, 5e, and 5f), it is clearly and adequately addressed and ensures disclosure of the fact that an officer, director, or other "insider" of the association who also serves in a leadership or ownership position with a third party doing business with the association, including a management company.

In closing, I would like to strongly urge the IRS not to make any further changes that might compel the disclosure of an AMC employee's personal salary on the Form 990, which is of course public, or attributes any part of the management fee to the AMC employee. Again, the management fee paid to an AMC by an Association is not allocated in such a manner and to require the reporting in such a manner would be nearly impossible to comply.

Sincerely,

Janet L. Jaworski  
Janet L. Jaworski, CMP  
Total Event & Association Management, Inc. (TEAM)  
2409 SE Dixie Hwy.  
Stuart, FL 34996  
Ph: 772-463-0810  
Fax: 772-463-0860

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**Comments from the National Council of Nonprofit Associations and its  
State Association Network to the Internal Revenue Service  
Regarding Proposed Changes to Form 990**

August 31, 2007

IRS

Form 990 Redesign, SE:T:EO  
1111 Constitution Avenue, NW  
Washington, DC 20224

Email – [Form990Revision@irs.gov](mailto:Form990Revision@irs.gov)

To - Form 990 Redesign Team:

The following comments are submitted on behalf of the National Council of Nonprofit Associations (NCNA) and its state association members. NCNA is a network of state and regional nonprofit associations serving over 20,000 organizations in 41 states and the District of Columbia. These organizations are predominately small –with annual budgets less than \$1 million – and grassroots-based. NCNA links local organizations to a national audience through state associations and helps these small and midsize nonprofits manage and lead more effectively; collaborate and exchange solutions; engage in critical policy issues affecting the sector; and achieve greater impact in their communities. One of the critical functions of the work of state associations is to ensure that nonprofits in their state are in compliance with all federal and state laws and regulations, including reporting requirements and none more important than IRS Form 990. The following comments were developed from direct experience and knowledge obtained by working with small and midsize nonprofit organizations and the state associations' desire to represent the perspective and interests of these organizations.

We appreciate the opportunity provided by IRS work to comment on the revision of Form 990. We agree that this form is one of the most critical information sources we have on the nonprofit sector in our country. The operating principles applied to our review were:

- To further advance accountability and transparency of the entire nonprofit sector.
- To submit comments that are in the spirit of helping IRS capture information that is useful, relevant, and informative.
- To ensure effective and best practices for the nonprofit sector are fostered through the types of information provided in Form 990.
- To reduce reporting burdens on small and midsize nonprofits, which represent the largest number of charities in the United States.

We recognize the temptation to try to use Form 990 for a variety of purposes, resulting in an ambitious attempt to get as much information as possible. During our review process we remained mindful of the primary function and purpose of Form 990 and the redesign principles that the IRS used throughout its revision process, which included: enhance transparency; promote compliance with IRS rules and regulations; and minimize the burden on filing organizations.

## General Comments

1. We recommend extending the time frame for implementation. We believe it will be difficult to implement the new draft form considering the significant changes in the accounting systems that will be required to accommodate new line items for Statement of Functional Expenses and the Statement of Revenues, not to mention changes in the schedules that link to the core financial statements. We agree with the general recommendation from the field that the IRS provide a second draft of the revised form and instructions for review and amendment with a one-year delay in the implementation from fiscal year 2008 to fiscal year 2009. This delay will provide opportunity to spread the word throughout the nonprofit world and to adjust the training and technical assistance information currently offered by state associations and other management support organizations. This concern is exacerbated two additional issues. There is a shortage of qualified accountants that understand the complexities of nonprofit accounting. In addition, in the case of small nonprofits with small budgets and limited access to accounting services, we cannot overemphasize the difficulties they will face in changing accounting systems for a 2008 filing date.
2. We recommend using the Nonprofit Taxonomy for Exempt Entities (NTEE) categories that currently exist as opposed to creating new ones for the purposes of filing. In reference to activity codes, the National Center for Charitable Statistics (NCCS) has developed the Nonprofit Program Activity codes, an offshoot of the widely used NTEE system, for classifying programs. (The full list is available at <http://nccsdataweb.urban.org/PubApps/nteeSearch.php?gQry=all-core&codeType=NPC>.) We strongly encourage the IRS to either use these codes or



work with NCCS and others to modify them to meet IRS needs. This will both save the IRS time and money and ensure a system that has been carefully constructed to meet IRS and the nonprofit sector's needs.

3. We recommend the following thresholds for reporting –
  - \$50,000 or less - new IRS reporting postcard 990 N (current requirement for organizations with less than \$25,000 in revenue)
  - \$50,000 and over – New Form 990

Through this recommendation we encourage the discontinuation of Form 990 EZ. If this is in fact the case, we further recommend that the nonprofits are required to complete only a portion of the revised Form 990 and a limited number of relevant schedules. (See recommendation #7).

There are two primary reasons for this recommendation. First, the state association network is concerned that increasing the threshold over \$50,000 will limit the information that will be available about smaller organizations. It is estimated that over 40% of nonprofit organizations have revenues less than \$100,000 and the loss of information from these organizations will hamper the ability of state associations and other management support organizations to fully understand the scope and breadth of the sector they are trying to serve.

Second, many state regulators require nonprofits to file Form 990 as part of their state reporting requirements. The lack of consistency in state and federal reporting thresholds will add further confusion to requirements for the smaller organizations. It does not make sense for an organization to file Form 990s in their state and this same information is not available in the IRS national database for information and comparative purposes.

4. We agree with maintaining the reporting period that corresponds to the organization's fiscal year. We recognize that compensation for officers, directors, trustees and other employees (or contractors) would be taken from Form W-2 or Form 1099 based on a calendar year. We recognize that two problems arise in doing this – the information will be older because it would be from the prior calendar year and the percentages the organizations will now be asked to calculate will mix salary information from the past calendar year with revenue and expense information from their most recent fiscal year.
5. We recommend that the option for group returns be retained. As proposed the new Form 990 captures more detailed information and has clearer definitions about related organizations. This additional information should increase transparency and accountability of these types of arrangements. We offer specific definitions to assist

in clearly identifying such relationships (see comments under Core Form – Instructions below).

6. We recommend that the ratios listed on page 1 should be moved to Schedule A. If this is not possible, we recommend moving the list of organizational accomplishments (Part IX) to the front page of the core form, following the financial information. This will allow the information to be consistent with the presentation outlined on page 1 of the core form.
7. We recommend that a “you must file schedule x” matrix be presented on the instruction sheet informing filers of what schedules organizations of various types must file. This will inform the majority of filers who do not meet certain conditions that they will only file one or two schedules; thus drawing their attention to the most pressing questions and line items.

## **Specific Comments on the Core Form and Schedules**

### **Heading of Form 990**

Item F – Name and address of principal officer should be the address of the organization as opposed to the home address of the principal officer for privacy reasons.

Item K – Include legal structure and if the organization is membership-based.

Item L – Year of formation does not have instructions, does this mean year of incorporation of the organization? This may be confusing since many organizations begin their operation before formal incorporation.

### **Part I- Summary Page**

A general recommendation is to relocate governance related questions other than those regarding total employees (Lines 3 to 9 but not 5) to Part III Statement Regarding Governance, Management, and Financial Reporting and the gaming and fundraising lines (Part I, lines 25 and 26) to Part IV – Statement of Revenue.

Line 1 – This question might be better phrased as “The organization’s mission statement” as opposed to describe the organization’s mission.

Line 2 – A standardized practice of coding program service areas does not currently exist so creating a new categorization system will take some time to incorporate across the sector. Several years ago, NCCS developed the Nonprofit Program Activity codes, an offshoot of the widely used NTEE system, for classifying programs. (The full list is available at <http://nccsdataweb.urban.org/PubApps/nteeSearch.php?gQry=all->

[core&codeType=NPC.](#)) We strongly encourage the IRS to either use these codes or work with NCCS to modify them to meet IRS needs. This will both save the IRS time and money and ensure a system that has been tailored to meet a broad array of practitioner and researcher needs.

Line 3 - The number of governing board members often changes during the course of a reporting year. Organizations should be asked to “provide the number of board members your organization had at the end of the reporting period.”

Line 5 – This should be clear in the instructions that employees that received W-2 should be included in the total number. This would normally include part-time staff and exclude volunteers.

Line 8b – The computation of compensation for directors and key employees allocated to program expenses as a percentage of total program expenses will provide a misleading picture of the operations of organizations with a limited number of paid staff and of organizations that are primarily service providers for whom personnel costs represent a high percentage of program expenditures. This figure, without further explanation, can be non-informative and subject to serious misinterpretation. We suggest removing this calculation or using total compensation divided by total expenses (column A instead of B).

Line 11 – The categories that comprise this line item are extremely diverse and will vary widely across nonprofits. They include contributions from individuals, government grants (contributions), federated campaigns, and commercial co-ventures. Reporting organizations should have clear definitions of how to identify and accurately report their source of revenue to ensure comparative reporting data.

Lines 11-20 - The utility of the ratios can be misleading. To counter this we suggest moving the Part IX to the front page to provide a more accurate picture of the nonprofit’s activities and accomplishments in the context of the ratios and to be more consistent with the presentation as outlined on page 1 of the core form.

Line 19b - The calculation of fundraising expenses against contributions and grants (line 11) does not present the full picture. The current method of assessing fundraising and general management ratios includes all revenue sources and not just contributions and grants. This new approach would not provide comparative data from previous years’ ratios.

We have a general concern about including the ratios on the first page of the Form and recommend that the percentage calculations be dropped from the Summary Page. Including these percentages on the Summary Page implies that there is a “correct” percentage for each calculation, that is, a lower percentage of fundraising expense as a

percentage of either total expenses or total contributions and grants is presumably an indicator of a more efficient or effective organization. Instead, a high percentage of fundraising expenses as compared to contributions or expenses could be caused by the launch of a new fundraising initiative while a low percentage of fundraising expenses as compared to contributions could simply reflect one or more unusually large gifts. A more accurate efficiency ratio might be to examine fundraising costs as a percentage of expenses or contributions over a period of years. Alternatively, we suggest adding a check box for organizations to indicate whether they are new (less than three years old) or undertook a new fundraising campaign or endowment campaign, as these situations can help explain a higher than usual fundraising to program ratio.

We further recommend that Lines 24 and 25 information about gross revenues, expenses, and the net return to the organization from gaming activities and from fundraising events other than gaming (drawn from the new Schedule G - Supplemental Information Regarding Fundraising Activities) not be included on the core Form. The Statement of Revenue asks for net income from fundraising events under "other revenue" and asks organizations to complete Schedule G if they receive \$10,000 or more in gross income from fundraising events. There is no link on the draft form between contributions from fundraising events (line 1c) to gross income from fundraising events (line 11), which states that contributions reported on line 1c should not be included in gross income. In place of Lines 24 and 25 we recommend placing the information about program accomplishments listed in Part IX.

## **Part II – Compensation and Other Financial Arrangements with Officers, Directors, Trustees, Key Employees, Highly Compensated Employees, and Independent Contractors**

Section A – Include statement "in this reporting period" for salaries of highly compensated employees and independent contractors. Privacy concerns have been raised about including city/state of board members. To counter concerns that some organizations may have we suggest offering organizations the option of listing the organization's address as opposed to the individual board members' home addresses or at a minimum require only state and not city of residence.

We are in agreement with increasing the threshold for reporting details of compensation to \$100,000 from the current \$50,000 for "five highest compensated employees (other than an officer, director, trustee or key employees)." Given the confusion this section has had in the field, it must be clearly stated that all reporting organizations must report their top five key employees' compensation regardless of amount. This will be an area of confusion since the current form asks to list employees who were compensated \$50,000 or more and does not stipulate "regardless of compensation." There have been additional concerns that small staffed organizations that have five or less staff will list

their entire staff. We recommend that "Key Employees" be defined more precisely in the Core Form instructions and in the glossary.

It should be further clarified for all categories that compensation excludes reimbursement for expenses, such as mileage, child care, and travel) and fringe benefits.

One item that was eliminated from the current Form 990 is number of hours work per week. We suggest that this item be retained.

Column A - The members of the governing body should be listed first and any other roles performed by the members of the governing body should be indicated by checking the appropriate box. Additionally, we recommend stipulating that "trustee or director" means member of the current governing body and that if there are multiple governing bodies performing specifically limited functions, the members of all such bodies must be listed here as well. Additionally, we recommend that the definition of "officer" be clarified in the instructions and glossary to include or exclude volunteer board officers. The same case exists for CFO and treasurer. Some organizations will have a staff member serving as CFO and a board member (officer) serving as Treasurer. Combining the titles in the same column will be confusing for many reporting organizations.

We suggest that Part II not require listing "former" members of the governing body who perform no current services for the organization nor should individuals such as an "emeritus" director or as a member of an advisory council or other body be required to be named in Part II Section A. The instructions suggest defining a "former member" in the following way: "Check the former box only if the organization reported (or should have reported) an individual as an officer, director, trustee, key employee, or highest compensated employee on any of the organization's **prior five** Forms 990, 990 EX or 990 PF." In this case, information would be duplicative from previously filed reports. However, the naming of former officers, directors, trustees, key employees or highest compensated employees may be required of organizations that should have reported but did not report in the prior five years.

Column D – Clarify how the numbers are linked to form 1099 or W-2 for purposes of reporting compensation. Clear distinctions should be made from fringe and other benefits and included as part of total compensation.

Line 2 – Make it clear that the total should include those already named under Part II Section 1b as well as those not named/listed.

The instruction should require that the "additional pages" that are permitted when necessary for Part II must be photocopies of this page 2 of the Form; that the last line of each page before the last should be used to say "continued on an additional page" and that the totals on lines 1b and 2 should be shown only on the last of the additional pages.

Section B – See specific recommendations for defining business relationships at the end of these recommendations.

### **Part III – Statement Regarding Governance, Management, and Financial Reporting**

As an official IRS form any question asked in Form 990 implies a legal mandate both to the filer and the reader. Some of the questions asked in Part III are not legal requirements but suggested good practices. There must be clear introductory language on the core form under Part III that stipulates that some of the items noted are not legally required and are commonly accepted practices and further explanation that not all of the good practices listed are necessary or appropriate for every organization. Rearrange the questions so Line 2 and Line 11 come first (legally required) and the others follow as suggested good practices.

Lines 1a and 1b – The definition of "independent" (see glossary of "20XX Instructions for Form 990) is defined as a person –

- Who is not compensated as an employee of the organization;
- Who does not receive compensation or other payments from the organization as an independent contractor (other than reimbursement of expenses or reasonable compensation for services provided in the capacity of serving as a member of the governing body;
- Who does not receive, directly or indirectly, material financial benefits from the organization except, if applicable, as a member of the charitable class served by the organization; and
- Who is not a spouse, sibling, parent, or child of any individual who is employed by, or receives compensation or other material benefits from the organization.

The glossary defines "governing body" as a group of persons having ultimate authority over and responsibility for the governance of the organization under the organization's governing documents or applicable state law (e.g., the board of directors of a corporation, the co-trustees of a trust) in a capacity other than as owners, shareholders, or members of the organization; it further defines a "member of a governing body" as a person who serves on the governing body, including a director, trustee, or co-trustee, regardless of whether the person has voting power.

Line 2 -- The instruction say that a change in "the number of...the governing body" must be reported as a significant change and briefly summarized in Part III Line 2. Since many organizations state a range for the number of members of the governing body in their governing documents, this instruction should make clear that reporting is required only when the required number is changed -- not when there are changes in the number of

sitting directors due to commonly occurring changes, such as elections, resignations. Although the new form does not require attachments for such significant governance by-law or legal changes the organization would have filed such changes with IRS. A check off noting that the reporting was done would be sufficient and not require additional attachments.

Lines 3, 4 and 5 – While we agree with BoardSource’s comments and strongly encourage nonprofits to establish whistleblower and document retention and destruction policies, the Sarbanes-Oxley Act does not mandates written policies. There is confusion in the field about the applicability of Sarbanes-Oxley, and reference to these provisions as legal requirements in the Form 990 will further add to this confusion. It can be stated that it is a federal crime for any entity to retaliate against whistleblowers and to destroy documents if the organization is under investigation.

Line 3b – Although we agree with the intent of this question, the wording is confusing and subject to wide interpretation and we further question the value of the information. We recommend eliminating the question altogether or asking “if all board and key staff members disclosed, in writing, any conflicts of interests with related organizations and individuals that they had during the reporting period.”

Line 6 -- The instructions define "contemporaneous" ambiguously. We recommend the following definition "within four months of the conclusion of the meeting or prior to the date of the next meeting of the governing body, whichever comes first." Such minutes should focus exclusively on the board governing body and not committee meetings.

Line 7 – There are currently no instructions for line 7 and we recommend that they be added to include a statement that “excludes those entities that are separately incorporated from the reporting organization.” In the instructions the terms "fiscal sponsorship" or "fiscal agent" arrangements should indicate that such arrangements create "affiliates" in the sense of this line. The instructions should state that fiscal sponsorship or agency arrangements should be considered equivalent to "affiliates" and that the question on line 7b should be answered with respect to such arrangements.

Line 8 – The question “indicate whether an independent accountant provides any of the following services” should have an additional option, “preparer”, to avoid the ambiguity that results if the "No" column is checked on line 8 and none of the three current boxes is marked. The instructions should further clarify that an audit is not legally required at the federal level except under certain circumstances (check with state law).

Line 9 -- The instructions should provide a description of the minimum duties of an audit committee or refer to a source for such a description. The mere presence of such a committee is insufficient (see response in Part III Line 3b.)

Line 10 – We suggest expanding and clarifying this question to ask "Did the organization's responsible governing body review and approve this Form 990 before it was filed?" The responsible governing body would include the audit or finance committee or in some cases the entire governing body. There are timeline restrictions and heavy fines associated with filing a Form 990 late. Requiring the entire governing body to review prior to submission would create an unnecessary burden on the organization and if relevant, the professional firm preparing their Form 990.

#### **Part IV – Statement of Revenue**

Instructions for Column (C) and (D) – Is the Tip offered on page 21 of 47 correct? It states "...an amount column (A) for lines 2 and 13" but probably means "an amount column (C) for lines 2 and 13?" It would appear that if any amount is noted on column (C) then codes of unrelated business activity would apply to it not for the total column (A).

A definition of what Unrelated Business Income Taxes are or a list where to find out more information – IRS Publication 598 – is needed in the instructions. The "TIP" listed does not provide sufficient details to fully answer the question.

1c. Fundraising events – We recommend that this question and the relevant instructions be reworded. We recommend that Line 1c include all revenue from fundraising events and then have calculation lines to separate out contributions from other revenue and expenses. Then those amounts for non-contribution revenue and expenses could be used to complete the line 11. Clear instructions should include income from fundraising events are gross and not net, which will be consistent with the current practice of the state regulators. [see related comment onLine 11c]

1d. Related organizations – we offer the following clarifying definition for related organizations as well as a means of classifying the income from such related organizations-

Related Organizations - A for profit or nonprofit organization is related to another organization if it has one or more of the following relationships to the other organization:

- Parent—an organization that *controls* the organization
- Subsidiary—an organization controlled by the other organization
- Brother/Sister—an organization controlled by the same person or persons that *control* the other organization, other than a parent/subsidiary relationship
- Supporting/Supported—an organization that is a 509(a)(3) supporting organization of the other organization (or a supported organization, if the organization is a supporting organization)



Organizations are not related simply because an organization pays membership dues if membership confers benefit to the member and/or the member has voting rights in the organization.

1e. Government grants in this line item are non-restricted and not tied to delivery of service as opposed to a contractual grant (see line 2a and 2b). This must be clarified in the instructions and the line item. Grants in this case would not be linked to the delivery of a specific service. It is highly unusual for organizations to receive government grants that are not linked to providing service, so providing a precise explanation for what this line item covers versus a government contract will be important for the reporting organization to accurately reflect the source of revenue.

1g. We recommend adding the language "Attach Schedule M if over \$5,000" and clarifying language to assist with the valuation of noncash contributions. It would be advisable to develop a valuation model as a useful publication for the sector's use.

We recommend adding additional line items that are consistent with funding sources that nonprofits are likely to receive. These include - foundation, individual, corporate donations as separate line items as opposed to including all of these likely sources under 1f (all other contributions). Also include new line items for "registration fees for events/meetings/training" and "other related program fees".

Line 2 a and 2b – The instructions should be clear and distinguish government support from that listed in Part IV Line 1e. Program services require delivery of service for the grant, contract, or in the form of a voucher. Also, include new item under line 2 for program service revenue paid by the client or client's family. The broad "program service revenue" category should encourage nonprofits to note (in the blank lines) types of fees they receive for program services that are not part of 2a-2c.

Line 11b – We recommend that fundraising expenses be linked to the practice of deducting the expense associated with an event or product (quid pro quo). We suggest the addition of two clarifying questions in item "11 b less direct expense" –

11b1 – Direct benefits to participant (such as fair market value of meal or golf tournament costs deducted from contribution amount as stated in contribution acknowledgement letter)

11b2 – Other direct expenses.

Line 14 – Should read "add lines 1h, 2g, 3-8, 9d, 10d, 11c, 12c, and 13e."

We recommend adding a new line for unrealized gains and losses. The lack of an explicit unrealized gain or loss line is particularly problematic as unrealized gains and losses are

reported inconsistently in the current Form. This information is not required on the Form and is not included in - "other changes in net assets" (Part I Line 20); other investment income (Part I Line 7) or other revenue (Part I Line 11). The new instructions tell you where not to report unrealized gains and losses (Part IV, Lines 8 or 10a) but not where you should report such gains/losses.

The proposed revenue schedule eliminates (and perhaps should not) the reconciliation to the changes in net assets (Part I Lines 18 to 21 in the current form). So, the schedule does not show that revenues - expenses = net income and net income +/- other changes in net assets = changes in net assets. A number of nonprofits presently report other changes in net assets and now there is no place to record these changes or incorrectly used the net assets line. There are times (such as changes in prior year's balances) when an organization would like to make it clear to the reader of the financial statements that something other than current year revenues and expenses changed net assets.

The form could do more to help the reader's understand the difference between restricted vs. unrestricted revenues. We recommend adding a section to Part IV that asks any nonprofit that has adopted SFAS 117 to reconcile as follows:

Line a: Total Unrestricted Revenues (excluding net assets released from restrictions)

Line b: Total Temporarily Restricted Revenues (excluding net assets released from restrictions)

Line c: Total Permanently Restricted Revenues

Line d (sum of Lines a to c): Total Revenues

Organizations can separately disclose the amount of temporarily restricted net assets released from restrictions accrual vs. cash revenues and to disclose a separate figure which is the total gross receipts directly under total revenues.

Another issue is how to account for pro bono contributions from consultants. We did not find a reference to this in the instructions or glossary. See notes below on Schedule M for on this concern.

## **Part V – Statement of Functional Expenses**

A general comment is to use line items that correspond with Uniform Chart of Accounts (UCOA) outlined in *“Unified Financial Reporting System for Not-for-Profit Organizations: A Comprehensive Guide to Unifying GAAP, IRS Form 990, and Other Financial Reports Using a Unified Chart of Accounts”* (Sumariwalla, R.D. and Levis, W.C. Jossey-Bass, 2000) that many in the nonprofit sector have adopted. This will encourage consistency in reporting and link more directly with accounting systems organizations have in place.

Line 5- Should those organizations who responded to Part II link to this Line and if so, what total amount should be noted Part II Section A Column D? Should this total subtract those listed as “former”.

Line 12 – The new line item for advertising can be confusing, particularly in reference to program and fundraising expenses. The definitions outlined in the UCOA book (see reference noted above) would provide a useful description for classifications.

Line 13 - The previous categories (old Part II, Lines 34, 35, and 38) for telephone, postage and shipping, and printing and publications should be retained and not lumped into an overall “office expenses”. In addition, the instructions should clearly specify whether printing of brochures and other fundraising materials should be reported under advertising and include more examples of how an organization would determine whether particular printing costs (such as printing of an annual report) would be considered to be of a general nature or advertising. We also question why internet site-link costs would be considered to be advertising, whereas other costs involved in developing and maintaining a website are included in information technology.

Line 22 – Is there a standard method of assessing depreciation that IRS recommends?

We recommend the entire text of the panel on the current Form 990 (bottom of page 2) regarding “Joint Costs” with respect to the discussion of joint fundraising expenses be included in the new Form 990 without change. The information in the panel is useful for assessing the credibility of the organization's presentations of its costs of fundraising.

Also please note that the bottom of Page 29 of the Instructions says “See Glossary” for an explanation of AICPA Statement of Position 98-2, but it is not located in the Glossary.

Line 24 – We recommend a new question 24b that asks “is any part of compensation determined by a ratio to revenue received? Yes No”

## **Part VI – Balance Sheet**

The new balance sheet adds detailed segregation of investments. The subcategories regarding investments in the balance sheet itself is overly detailed compared to the disclosures on other accounts on the balance sheet. It would be beneficial to retain the distinction between financial investments and fixed assets. It would be much more helpful to the users to let them know what portions of each are permanently restricted.

The new form does not add current vs. noncurrent asset and liability distinctions. This distinction is a “classified” balance sheet and is required in for-profit reporting. The breakdown between current and long term assets and between current and long term liabilities provides valuable information to determine the liquidity of an organization and may be useful information to include in this section.

## **Part VII – Statement Regarding General Activities**

Lines 6a-6d – The instructions do not clearly define the situations that apply. There are no instructions for lines 6c-6d. See recommendations for “suggested format” that immediately follows.

Line 11 – Does the question “...organization have a written policy or procedures to review the organizations investments or participation in disregarded entities, joint ventures, or other affiliated organizations (exempt or non exempt)” refer to a general investment policy?

Suggested Format - Many of the questions are not relevant to many small and midsize nonprofit organizations. The questions should be grouped into logical categories and each group should be preceded by a question of the general form “Did the organization engage in any of the following - If “no” skip to line XX.” Since the activities are specific to certain types of nonprofits the use of “general activities” is misleading. It should read “Statement Regarding Special Activities.”

## **Part VIII – Statement Regarding Other IRS Filings**

Line 1 – Refer those who answer yes to Schedule C Part I. Make sure the instructions are clear that activities under this category are prohibited for 501(c)(3) organizations. Provide current definitions in the instructions for what constitutes political activities.

Line 2 – Refer those who answer yes to Schedule C Part II-A. Make sure the instructions include definitions of lobbying, direct and indirect. Provide current definitions in the instructions for what constitutes political activities in addition to the glossary.

Line 3 – We recommend that organizations that provide a range of financial literacy programs at no cost to the participants be excluded from filing Schedule D since the questions are not applicable to their operations.

Line 8c – Clarify that reporting organizations would note “no” if they are partners with highly regulated state and/or federal bodies such as the case with organizations working with property management companies affiliated with HUD or other governmental entities.

## **Part IX – Statement of Program Service Accomplishments**

Several years ago, NCCS developed the Nonprofit Program Activity codes, an offshoot of the widely used NTEE system, for classifying programs. (The full list is available at <http://nccsdataweb.urban.org/PubApps/nteeSearch.php?gOry=all-core&codeType=NPC>.) We strongly encourage the IRS to either use these codes or work with NCCS and others to modify them to meet IRS needs. This will both save the IRS

time and money and ensure a system that has been tailored to meet a broad array of practitioner and researcher needs.

We also suggest moving the Part IX to the front page to provide a more accurate picture of the nonprofit's activities and accomplishments in the context of the ratios and be more consistent with the presentation as outlined on page 1 of the core form. Additionally, we recommend that organizations be given the option to provide attachments as needed to fully reveal their organization's accomplishments.

### **Part X – Signature Block**

Keep Part X on a separate page to facilitate removal of the signature and any confidential information (e.g., a Social Security Number) that a user may inadvertently include here. This arrangement will reduce the risk of inadvertent disclosures by Guidestar or others engaged in the public display of Form 990s.

However, an even more utilitarian change would be having the Redesigned 990 omit the SSN/PTIN/EIN 'paid preparer' blocks as these are not required to be completed for Form 990 (or substitute 990-EZ) filings made by 501(c) exempt organizations. Those blocks are only called for when the Form 990 is filed as the required return for a nonexempt 4947(a)(1) charitable trust who uses a 990 filing in lieu of a Form 1041 (in other words, not for 501(c) exempt filers). The current case is that all too often, paid preparers (including many knowledgeable exempt organizations tax attorneys) mistakenly fill out this information. Having the signing block separately set out for 4947(a)(1) filers that acknowledges that their making of the Form 990 is a "tax" filing (not an annual information return) when made in lieu of Form 1041 and that then requires this additional information of paid preparers. Having 600k+ filers who are 501(c) and 527 exempt entities safeguarded by not having to "know" the Instruction that allows them to properly keep those blocks blank would be of great benefit in this day and age of privacy concerns.

### **Schedule A: Supplementary Information for 501(c)(3) Organizations**

Part I –The instructions refer the organization to the organizing documents to ascertain which reason they received their 501(c) status. It may be helpful to note that the overwhelming number of nonprofits are included under number 9.

Part II and III - We are in agreement that Schedule A Part II should replace the current Form 8734 (advance ruling period).

We are concerned that the line items of public and total support do not correspond directly to the items in Part IV (Statement of Revenues). Instructions should outline

which line items in core form Part IV correspond to the line items in Schedule A Parts II and III.

Part III – Line 2 should include “registrations” since many nonprofits hold meetings, conferences and training sessions that would be included in this line item.

The instructions on “unusual grants”: are unclear. The reporting format shown on 10 of 13 of the instructions include the name of the donor. The instructions are to file the information on an unknown specified schedule without the donor’s name. Information provided should be more informative and consistent.

#### **Schedule B: Schedule of Contributors – no change from 2006 990 Form**

What is missing on this schedule, and not found in any other section except for totals on Part IV Lines 1e and Lines 2a and 2b, are government grants. Where should they be listed?

#### **Schedule C: Political Campaign and Lobbying Activities**

One major concern is the combination of political campaign work, clearly prohibited for 501(c)(3) organizations, with lobbying, which is permitted for such organizations. The combination on the same schedule is likely to cause confusion and misinterpretation, not to mention imply a linkage between the two activities that does not exist.

Part I-A Line 1 – Rewrite question as “Provide a description of the filing organization’s political campaign activities on behalf of or in opposition to candidates for public office.”

Part I-A Line 2- There are two significant concerns with the question. First, tracking the exact number of volunteer hours will be difficult and requires significant administrative time and costs. Second, assessing how volunteer hours be counted. We recommend using the Lobbying Disclosure Act (LDA) requirement to be consistent with other reporting requirements. Doing so could provide a double-check on an organization’s use of volunteers. This requires organizations to make a good faith estimate on blocks of hours rather than provide a definitive count of hours.

It would be helpful to have more guidance for organizations that do not elect section 501(h) and provide information/definition of lobbying for non-electors (top of page 12 of instructions).

#### **Schedule D: Supplemental Financial Statements – 15 parts**

The form could do more to help the readers understand the difference between restricted versus unrestricted revenues. You should additional space for the detail of the “other expenses” line items.

### **Schedule E: Private Schools**

No Comments.

### **Schedule F: Statement of Activities Outside the U.S.**

We are concerned about the security of grant recipients whose identity will be disclosed if Schedule F, Part II is made a public document. We recommend that the informaton not be disclosed to the public. Although Schedule F does not request the address of grant recipients, with the name of the organization and the city, the organization’s security can easily be compromised. This could put the staff of organizations at risk of reprisal by opposition groups or even intolerant government.s

### **Schedule G: Supplemental Information Regarding Fundraising Activities**

If an organization does not file this Schedule, it can not fill out the summary on the core form Part I Line 25 and 26. The triggers for completing Schedule G are provided in Part IV – Statement of Revenue (line 11a) and Part V – Statement of Functional Expenses (line 11e). The IRS estimates that 25% of filers will be required to file Schedule G . We recommend that this section should be renamed the as “Fundraising/Gaming Activities” .

### **Schedule H: Hospitals**

No Comments.

### **Schedule I: Supplemental Information on Grants and Other Assistance to Organizations, Governments, and Individuals in the U.S.**

No Comments.

### **Schedule J: Supplemental Compensation Information**

We support the efforts to clearly define the term “compensation” as it is currently unclear exactly what is covered. For example, does it include salary and fringe/related benefits? Is the information transferred from 1099 or W-2’s? Remove nontaxable expense reimbursement from the total (Column F) since it is misleading and should not be calculated as part of total compensation when it is for legitimate business related reimbursement. We question why this should be included in total compensation altogether.

Questions 2-6 – Five “yes/no” questions apply to all board members, officers, and employees, not just those highly-compensated individuals listed on this Schedule, yet they will only be answered by those who must complete Schedule J. Would it be more appropriate to list any of these questions on the core form?

Question 5: “...did the organization pay or accrue any compensation determined in whole or in part by the net earnings of the organization? Related organization?” Given that the only individuals listed on Schedule J are those listed on Part II Section A individuals that have such arrangements might be missed because they are not listed on Part II. We recommend disclosure of any such arrangements regardless of listing on Part II Section A.

In addition, the instructions should clearly state that it does not include general practice of assessing key employees’ performance and subsequent salary increased based upon achieving the organization’s revenue goals, in addition to other performance measures. This is a standard practice in most organizations and should not be confused with contingent financial compensation arrangements, which this questions seems to be addressing.

Given that only 5% of organizations will be required to file Schedule J, the matrix on page 9 (of 11) of the instructions would be useful information for those organizations filling out Part II Section A of the core form.

#### **Schedule K: Supplemental Information on Tax Exempt Bonds**

No Comments.

#### **Schedule L: Supplemental Information on Loans**

No Comments.

#### **Schedule M: Non-Cash Contributions**

This new schedule will add significantly to the reporting burden for small organizations whose primary fundraising activities involve auctions or yard sales. The \$5,000 cap should be retained if the filing levels for the Core Form is raised to \$50,000. We recommend \$10,000 or less for all those smaller donations that don’t require an 8283 form or appraisals.

A helpful valuation model publication would ensure that organizations are using the same definitions and process to assess non-cash value distinct from Publication 561 – Determining the Value of Donated Property.



We suggest using the process similar to the vehicle donation program. If the non-cash donation is used by the organization it should not be considered non-cash contribution for the purposes of valuation model. These contributions are usually in the form of items that are used by the organization for staff or client use with no plan to “resell” the items.

Another issue that we draw to your attention is the utilization of pro bono contributions from consultants as critical source of non-monetary support that many organizations receive in a variety of areas (such as legal, financial, planning). The nonprofit sector as a whole would benefit from a rule and form change for the following reasons:

- (1) If consultants could be recognized as making a contribution at a dollar value it would reduce their tax liability and this in turn would encourage more consultants to provide pro bono services; and
- (2) In a real way, when organizations receive this value from pro bono services, the value of the organization increases both in terms of the value of the services they provide and in the enhanced organizational effectiveness.

If a rule change were made there could be a maximum amount of pro bono contributions that would be recognized by the IRS.

#### **Schedule N: Liquidation, Termination, Dissolution, or Significant Disposition of Assets**

No Comments.

#### **Schedule R: Related Organizations**

Additional Comments and Recommendations for Changes for the Instructions and Glossary

#### **Core Form - Instructions**

Re-title the section currently identified as "H. Failure to File Penalties" as "H. Penalties for Failure to File and for Filing Incomplete Returns."

#### **Business relationship**

The definitions in the instructions are not clearly presented and can be subject to misinterpretation. We suggest the following definitions to ensure consistent interpretation of the terms.

Business relationships between persons (where person means an individual, organization or any other legal entity) include any one or more of the following relationships that occurred during the reporting period:

- 1) One person was employed by a sole proprietorship or by an organization or other legal entity where the employee had a relationship as a trustee, director, officer, key employee, or greater-than-35% owner.
- 2) One person was involved with another in one or more contracts of sale, lease, license, loan, performance of services, or other business transactions involving transfers of cash or property valued in excess of \$5000 in the aggregate during the reporting period. Also included are transactions with an organization with which the person was associated as a trustee, director, officer, key employee, or greater-than-35% owner.
- 3) Two persons were common owners in a business or investment entity in which they, individually or together, possessed a greater-than-35% ownership interest and each held an interest greater than 2%.
- 4) The person was the founder of a legal entity and maintains an association with that legal entity through business transactions involving cash or property valued in excess of \$5000 in the aggregate during the reporting period.

Ownership is measured by stock ownership (either voting power or value) of a corporation, profits or capital interest in a partnership or limited liability company, or beneficial interest in a trust. Ownership includes indirect ownership (e.g., ownership in an entity that has ownership in the entity in question); there may be ownership through multiple tiers of entities.

Payment of membership dues is not considered a business relationship if membership confers benefit to the member and/or the member has voting rights in the organization.

#### **Control (for related organization test)**

A nonprofit organization or a for-profit organization “controls” a taxable organization (including pass through entities) when the nonprofit or for profit organization:

- Owns more than 50% of the stock (by voting power or value) of a taxable corporation,
- Owns more than 50% of the profits or capital interest in a taxable partnership,
- Owns more than 50% of the profits or capital of a limited liability company, regardless of whether the entity is treated as a corporation or a partnership for federal tax purposes or for designation of the: interests as a stock; membership interests; or otherwise under state law,

- Is a managing partner or managing member in a partnership or limited liability company,
- Is a general partner in a limited partnership
- Is the sole member of a disregarded entity, or
- Owns more than 50% of the beneficial interest in a trust.

See Regulations sections 301.7701-2, 3 and 4 for more information on classification of corporations, partnerships, disregarded entities, and trusts.

A nonprofit organization or for profit organization “controls” a tax-exempt organizations, when the nonprofit or for profit organization:

- Has the power to appoint a majority of the organization’s directors or trustees, or
- Where a majority of the controlled entity’s directors or trustees are trustees, directors, officers, employees, or agents of the controlling organization.

Control may be indirect. In other words, if the organization controls Organization A that in turn controls (under the definition of control above) Organization B, the organization will be treated as controlling Organization B. There may be multiple levels of controlled organizations.

An organization that has member chapters or affiliates is not considered to control the members, unless the relationship between the organization and its members meets the above definition of control.

NOTE: This definition does not apply to determine whether a person is a member of a governing body.

### **Related organization**

A for profit or nonprofit organization is related to another organization if it has one or more of the following relationships to the other organization:

- Parent—an organization that *controls* the organization
- Subsidiary—an organization controlled by the other organization
- Brother/Sister—an organization controlled by the same person or persons that *control* the other organization, other than a parent/subsidiary relationship
- Supporting/Supported—an organization that is a 509(a)(3) supporting organization of the other organization (or a supported organization, if the organization is a supporting organization)

Organizations are not related where an organization pays membership dues if membership confers benefit to the member and/or the member has voting rights in the organization.

Respectfully submitted on behalf of –

National Council of Nonprofit Associations  
Arkansas Coalition for Excellence  
California Association of Nonprofits  
Connecticut Association of Nonprofits  
Donors Forum of Chicago  
Maine Association of Nonprofits  
Massachusetts Council of Human Service Providers  
Michigan Nonprofit Association  
Mississippi Center for Nonprofits  
Nonprofit Coordinating Committee of New York  
North Carolina Center *for* Nonprofits  
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