

Instructions for Preparing Financial Data for Your 501(c)(3) Application

What Financial Information is Needed?

The 501(c)(3) application asks for three kinds of financial data:

1. Statement(s) of Revenue and Expenditures
2. Balance Sheet
3. Projected Budget

A worksheet for each type of financial data is attached, with brief instructions.

How Does the IRS Use this Financial Data?

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

1. To flesh out the narrative description of the organization's activities.
2. To identify unrelated business income, lobbying, excess benefits, and other taxable activities/events.
3. To uncover improper benefits to insiders, political expenditures and other disqualifying activities/events.
4. To determine the organization's correct 990 filing requirement.
5. To decide if the organization has paid the correct User Fee.
6. If the organization is filing more than 27 months after the end of the month formed, to determine if the low gross receipts exception to the filing deadline applies.
7. To determine if the group is publicly supported.

KEEP IN MIND that the fee the IRS will charge for processing your 501(c)(3) application is based on the financial data/projected budget. If actual or projected income is, or will be, more than \$10,000 per year, the IRS will charge a one time User Fee of \$750, instead of \$300. The IRS does not currently have any follow-up procedures to see if your predictions are accurate, but your projections must be consistent with your description of your planned activities.

Statement of Revenue and Expenditures

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

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If your group has budget forms or treasurer's reports that it already uses, or if you use a financial software program that provides suitable statements, feel free to use those, as long as the information provided includes income and expenses, is classified (broken down by type of income and type of expense, rather than lumped together) and shows total amounts.

In theory, the IRS must have financial statements for every year your organization has been in existence. Do not overlook your very first year. Unless your organization was established on the first day of your chosen accounting period, your first year was probably less than 12 months. If your group had no financial activity at all for a given period, prepare a statement showing all zeroes.

If your organization has received donated goods, such as office supplies or postage, show the value of these items in your financial statement as both contribution income and a related expense. Do not include volunteer services or the value of facilities donated to your group in your financial statement.

A worksheet you may use is attached. Make extra copies for multiple years. Make sure to label all financial statements clearly showing the dates covered.

You will need:

1. Statements showing actual revenue and expenditures for every completed year your organization has been in existence, and for which your organization is seeking tax exempt status. You may put two or three years in several columns on one sheet if that is convenient. If your group has been in existence less than one year, skip this. If your group has been in existence more than three years, provide only the three most recent years. (Note that some IRS agents will ask for more than this.)

2. One statement showing actual revenue and expenditures for the current year. This statement will probably not cover a full year. Start with the beginning date of your organization's fiscal year (or the date the organization was created), and end on the last day of a recent month. For example, if today were June 15th, this statement might end May 31st or April 30th.

Balance Sheet

While the Statement of Revenues and Expenditures summarizes financial activity over a period of time, the balance sheet takes a snapshot of the organization's finances on a particular given date.

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You list everything that the organization owns and owes on that specific date.

If your group has a balance sheet form or treasurer's report that it already uses, or if you use a financial software program that provides a balance sheet, feel free to use those.

The IRS prefers that you use the last day of a month for your balance sheet. The date you use should be recent.

A worksheet you may use is attached. Make sure to label all financial statements clearly showing the dates covered. Do not provide a "projected" balance sheet.

You will need:

1. One balance sheet showing everything the organization owned and owed as of the end of a recent month. If possible, make your balance sheet correspond to the ending date you have used for the current year Statement of Revenues and Expenditures. Make sure to label the balance sheet clearly with the date.

Projected Budget

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

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

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

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

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the organization might be able to raise, decide what your priorities will be in spending it.

When an organization has operated for any period of time, another approach to the budget is available. Choose a month (or quarter) that is representative of how the organization is likely to operate in the future. Take that month, and multiply by twelve (four if you are using data from a quarter). Depending on your circumstances, you might want to adjust your figures up or down to allow for growth or shifting priorities for future years.

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

A worksheet you may use for your projected budget appears on the next page. Make sure to label all financial statements clearly.

You will need:

1. One statement projecting revenue and expenditures for the balance of the current year. Start immediately after the current statement showing *actual* revenue and expenditures (above) ends. End on the last day of your group's normal accounting period. Label this and all financial statements clearly with the period of time covered.
2. One statement projecting revenue and expenditures for the two years following the statement you prepared for #1 above. These will be years that have not yet started. Again, label the projected budget clearly. Although the instructions for Form 1023 do not require projections if you can provide three years of actual data, it is not unusual for the IRS to request budget information anyway. Take the time to prepare and submit a projected budget.

Name of Organization _____

EIN of Organization _____

Statement of Revenue and Expenditures

Period Covered: from _____ to _____

Support and Revenue

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

Expenses

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

Net Revenue Less Expenses _____

Name of Organization _____

EIN of Organization _____

Balance Sheet

Balances as of: _____

Assets

Cash & Checking _____

Savings _____

Inventories _____

Investments _____

Equipment _____

Land & Buildings _____

Other _____

Other _____

Total _____

Liabilities

Accounts Payable _____

Loans from Officers & Directors _____

Mortgage _____

Other _____

Other _____

Total _____

Net Assets (assets minus liabilities) _____

Name of Organization _____

EIN of Organization _____

Projected Budget

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