**State Return Preparation Process**

In late December or January, the Accountant locates and prints a copy of the most current CCH SmartChart regarding state UBTI provisions. This is used throughout the state return preparation process to assist in determining whether the Foundation needs to file in additional states, and the appropriate return to file. At this time, the Accountant also prints a copy of the current year instructions for each state return that was filed in the prior year, as well as instructions for any other state return that the Foundation anticipates will need to be filed for the current year but may not have been filed in the past. The Accountant highlights the due date, extension provisions, and filing address in each set of instructions, and compiles the due date and extension information in a single spreadsheet to be referenced as each due date approaches. Notes are also included in the Finance Department calendar in Microsoft Outlook on each of the return due dates, indicating which returns or extensions are due on that date. The instructions, summary spreadsheet, and CCH summary of UBTI provisions are filed in the current year’s state tax return binder.

As tax information is received, the Accountant follows the process detailed in Appendix A to the Form 990-PF and 990-T preparation process, which includes entering state tax information into the state summary spreadsheet. Note that only investments producing UBTI need to be entered in the state summary file. In the tab for the investment, federal income is entered by type on one line, and UBTI amounts are entered on a separate line. Finally, income by state is entered for the investment according to the information provided by the investment in its tax reporting. The state income lines in each investment tab are linked to lines in the tabs for each state, which then total the income to be reported for each state.

As each state tax return deadline approaches in the spring, the Accountant assesses how much information has been received to date from the UBTI-producing investments and requests tax estimate information from any investments that have not yet provided any. This tax estimate information is also entered into the state summary spreadsheet. The Accountant then reviews the state tabs for each state that is due at that time, ensuring that income and expense items are correctly pulling from each investment tab into the state tabs. The Accountant then prints each investment tab as well as the tab for each state that is due. The prior year return for each state is reviewed to determine whether there are any net operating losses and/or overpayments to be considered in determining whether an extension payment is required for each state. The Accountant notes on the printed copy of the state tab whether there are any carryover items to be considered, as well as whether the state accepts the federal extension if no balance is due. The note also indicates whether an extension and/or an extension payment should be filed for the state. If an extension is to be filed, the Accountant prepares the extension for review with the calculations. This information is provided to the Controller and eventually the Vice President for Finance for review. When all extension calculations and related extension forms have been reviewed by both the Controller and the Vice President for Finance, the calculations are adjusted and reviewed again, if necessary. Once the calculations and forms have been approved, calculations are filed, and forms are mailed to the appropriate taxing authorities using certified mail/return receipt requested. A copy of the extension along with the certified mailing receipts is kept in the Controller’s office in the appropriate state’s file folder. A copy is also kept in the state tax return binder for the year.

The Accountant continues to enter additional information as it is received from each investment producing UBTI, and also begins completing the state tax return forms, with the exception of the income amounts and other details to be completed later in the process. The Accountant consults the prior year return as well as the current year form instructions in completing these sections of the state tax returns.

As the first state return filing deadline approaches, the Accountant assesses whether all information has been received to file the returns that are due at that time. If information is still missing, the Accountant follows up until everything has been received. When the summary tab for the state is completed, it is printed out, and numbers are entered into the state tax return. The Accountant uses the prior year return and work papers as well as the form instructions for guidance in completing each form. When the form has been completed, the form and the work papers are provided to the Controller for review. When the Controller has reviewed the form, it is provided to the VP for Finance for review.

When the VP for Finance has approved the return, it is signed by the CEO, and photocopies of the return are made. One copy of the return, with certified mailing receipts, is kept in the Controller’s office in the appropriate state’s file folder. Another copy is kept in the state tax return binder for the year. Pages of Form 990-T are attached to the state return if the state form instructions indicate that this should be done. If Form 990-T is not completed before the state return deadline, a draft of Form 990-T is provided with the state return, with the word “DRAFT” clearly written on it.

As each state return filing deadline approaches, the Accountant completes the state returns that are due at that time. Any states with filing deadlines on or after November 15th are filed by November 15th.

When the certified mailing receipts are received, the Accountant scans the state return and both certified mailing receipts, and saves the scanned file to the network in the appropriate year’s folder at H:\Finance\IRS-Tax\States.