



## Board Member Review of the New Form 990

The new form 990 is designed to increase transparency related to the mission and governance of all non-profit organizations. There are many changes to the new form that have implications for policies and procedures, followed by the organization and its board. One of those policies relates to the review of the 990 by the Board, or a designated committee, prior to its filing with the IRS. Boards should consider whether it is appropriate to distribute non-public components of the 990 to all members of the board. (Schedule B)

The following table is designed to help board members effectively review the 990 and to consider the organization's policies and potential benefits of changes to those policies:

### Return Objectives

### Key Considerations

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#### Part I: Summary

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Part I provides a snapshot of the organization's purpose, staffing, sources of financial support, and use of funds.

1. Is the brief description of the organization's mission or most significant activities candid and positive? Does it appropriately "sell" your organization's justification for donor support?
2. Does current year data (lines 8–19) compare favorably or unfavorably with the prior year?

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#### Part III: Statement of Program Service Accomplishments

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The information disclosed in Part III explains to the user of Form 990 (e.g., the IRS, prospective donors, or investigative reporters) why the organization exists, based on its key activities. It also affords an opportunity for an organization to promote its accomplishments.

1. Are the program services described consistent with the organization's mission statement and information on its website?
2. Are the program services described in sufficient detail to present a comprehensive and accurate portrayal of the organization to the Form 990 user?

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#### Part IV: Checklist of Required Schedules

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A "Yes" answer to any of the primary questions in Part IV requires that an additional schedule or part of a schedule be completed. Many of the questions deal with activities that the IRS considers likely to result in violations of tax rules. The schedules provide detailed information that enables the IRS to evaluate the likelihood of violations to the rules.

1. Is the organization engaged in one or more activities that are under scrutiny by the IRS (and which, therefore, increase the likelihood of some form of audit by the IRS)?
2. Should the board consider changes in its policies and procedures, especially if question 25a or b, 26, or 27 is answered "Yes"?

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## **Part V: Statements Regarding Other IRS Filings and Tax Compliance**

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An exempt organization is potentially subject to several other filing requirements in addition to Form 990.

1. Have paid personnel been properly classified as employees rather than independent contractors to avoid payroll tax problems?
2. Were payroll taxes deposited with the IRS on a timely basis?
3. If applicable, were other filings or notifications indicated in Part V made timely since any failure indicates an administrative shortcoming?
4. If the organization is a charitable organization and received more than \$250 from a single donor, was a receipt furnished timely to enable the donor to substantiate his charitable contribution deduction?
5. Is the organization potentially subject to unrecorded penalties and interest (e.g., if line 3b, 6b, 7b, or 7h is answered "No," or if line 5a, 5b, 8, 9a, or 9b is answered "Yes")?

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## **Part VI: Governance, Management, and Disclosure**

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The IRS requires exempt organizations to adopt policies and practices that promote good governance and operational transparency, which should help foster tax law compliance.

1. If the organization does not have the written policies indicated by lines 12a, 13, 14, and 16b, should the board consider adopting any of these?
2. If line 15a or 15b is answered "No," should the board consider a change in the procedures for setting compensation to minimize the future risk of challenge by the IRS [and the exposure to the tax on excess benefits if the organization is a Section 501(c)(3) or (c)(4) entity]?
3. If the organization is conducting activities in multiple states, is it properly registered in those states and satisfying their filing requirements?

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## **Part VII: Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors**

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The IRS is concerned that many exempt organizations are providing excessive compensation and benefits to directors (or trustees) and certain employees. Therefore, Form 990 may require extensive compensatory data in Part VII and Schedule J.

1. Does the compensation of those listed in Part VII appear justifiable in view of the organization's activities and their responsibilities? (Note: Revisit Part VI, lines 15a and 15b, especially if either is answered "No.")
2. Has the organization carefully considered the criteria in the instructions to insure that all persons meeting the criteria are included and that compensation disclosure is based on calendar year W-2 information?

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## Part VIII: Statement of Revenue

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Part VIII details the sources of the organization's revenue. Such detail provides additional insight into the organization's activities and may indicate potentially taxable unrelated business income.

1. Does the revenue data indicate too much reliance on a source that could be jeopardized by a weak economy, declining stock market, or other external factor (i.e., should alternative revenue sources be considered or emphasized)?

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## Part IX: Statement of Functional Expenses

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Part IX offers the Form 990 user the same insights as Part VIII. In addition, the magnitude of certain expenses may indicate poor or inadequate management.

1. Are compensation and benefits (lines 5 through 9) consuming most of the organization's revenue?

2. Are certain expenses justifiable (e.g., lines 11a through 11g, 12, 17, 18, and 19)?

3. Are nonfixed expenditures in excess of a specified amount (e.g., \$1,000) subject to prior approval by an appropriate officer?

4. If completed, do column (C) (management and general expenses) and column (D) (fundraising expenses) totals appear excessive relative to total program service expenses in column B?

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## Part X: Balance Sheet

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Part X provides information that can indicate whether the organization is financially healthy.

1. Is an excessive amount of cash (line 1) being kept in noninterest bearing accounts?

2. Are resources being diverted from program service activities to related party loans (lines 5 and 6)?

3. What oversight is being exercised over related party loans to ensure adequate collateral, interest timely repayment, etc.?

4. Are notes and loans receivable (line 7) adequately collateralized and monitored for timely repayment?

5. Does an increase, if any, in accounts payable and accrued expenses (line 17) during the year suggest potential cash flow problems?

6. Do liabilities include a delinquency in depositing withheld payroll taxes (which if not ultimately paid could result in personal liability for officers or perhaps directors)?

7. If the organization has restricted assets (lines 28 and 29), are the restrictions being observed?

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## Part XI: Financial Statements and Reporting

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Part XI provides additional information to enable the user to interpret Form 990 and assess its credibility.

1. If the organization does not have an independent audit (line 2b), are its financial resources sufficiently large to make an independent audit prudent?
2. If audited, do the auditors report to the group responsible for overseeing the financial reporting process (such as an audit or finance committee or a governing board)?
3. If audited, does each member of the group responsible for overseeing the financial reporting process receive a copy of the auditor's report and any additional communications (such as internal control communications or a management letter)?

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### Schedule A: (Form 990 or 990-EZ) Public Charity Status and Public Support

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Schedule A focuses on the public charity status of a Section 501(c)(3) organization.

1. Does the data (Part II, Section C or Part III, Sections C and D) indicate that the organization is in danger of becoming a private foundation rather than remaining a public charity?

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### Schedule B: Schedule of Contributions

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Disclosure of key contributors

1. Is the disclosure of contributions consistent with the organization's accounting policies (typically accrual, based on when pledge is made)?

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### Schedule C: (Form 990 or 990-EZ) Political Campaign and Lobbying Activities

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Schedule C provides information on the political and lobbying activities of certain organizations.

1. If exempt under IRC Sec. 501(c)(3), what policies are observed to prevent participation in a political campaign that could jeopardize tax-exempt status?
2. If there is a tax liability on line 1 of Part I-B because of a political expenditure, should policies be changed to avoid future liability?
3. If the organization is a Section 501(c)(3) entity that is eligible to make the lobbying expenditure election but has not, should it do so to minimize the likelihood that exempt status will be lost because of excessive lobbying (see Part II-A)?

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## Schedule J: Compensation Information

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Schedule J expands upon informational requirements of Part VII of Form 990. Form 990 users will review Schedule J for evidence of waste, extravagance, and financial abuse.

1. If any box on line 1a is checked, is the economic benefit warranted or should it be re-examined?
2. Does the organization require strict accountability for expense reimbursements to prevent abuse (lines 1b and 2)?
3. Is the organization setting compensation based on one or more methods indicated by the box descriptions for line 3? (Note: The more boxes, the better.)
4. If any of the questions on lines 4 through 8 are answered "Yes," do the indicated transactions suggest that changes should be made in non fixed compensation arrangements to avoid windfall payouts?

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## Schedule L: Transactions with Interested Persons

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To bring transparency to financial interactions between management, governance and the organization.

1. Did the organization consider all direct or indirect transactions or relationships that may require disclosure? (See Part IV questions 25-28)
2. Are business transactions with interested persons fully disclosed, including the amount, nature of the transaction and relationship with the organization, management and board?

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## Schedule O: Supplemental Information to Form 990

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Schedule O provides an opportunity to further disclose important items to users of the 990.

1. Is there a description of how the board determines compensation for key executives?
2. Is there a description of the 990 board review process? (Should specify if Part B was reviewed and why)
3. If any fraud was detected in the organization it needs to be described on Schedule O.
4. Consider disclosing how information to the public is made available (website, office, guidestar, etc.).
5. Does it disclose transactions with interested persons?

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