

Form 990: A board member's review checklist

The IRS encourages an active and engaged board, believing that it is important to the success of a charity. The new Form 990 is designed to enhance transparency of an exempt organization's mission and activities, and promote compliance with applicable tax law requirements. An understanding of both these areas is essential in order for a board member to effectively perform his or her fiduciary responsibilities. For this reason, Form 990 asks whether the return was furnished to the board prior to filing. In addition, all organizations must describe the process, if any, the board or a designated committee, uses to review the 990.

The following checklist highlights certain sections and schedules of importance, and is designed to help board members who are not exempt organization tax practitioners comprehend the significance of the data in their organization's 990.

Part I—Summary

Part I provides a snapshot of the organization's mission, governance, and key financial, compensation and operational information.

- Is the brief description of the organization's mission candid and clearly articulated? Does it exert a positive influence upon a prospective donor?

- Does the current year summary of financial information compare favorably or unfavorably with the prior year?

Part III—Statement of Program Service Accomplishments

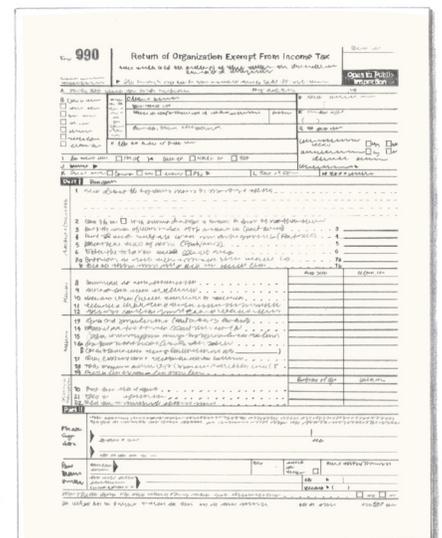
Part III offers an organization the opportunity to increase awareness about itself by fully describing its program services and all related expenditures.

- Does the information in Part III explain to the user of Form 990 (e.g., the IRS, prospective donors or investigative reporters) why the organization exists, who it serves and the information about activities it will undertake to accomplish its mission?
- Are the program services described in sufficient detail to present a comprehensive and accurate portrayal of the organization?

Part IV—Checklist of Required Schedules

Part IV asks questions to determine whether a particular schedule or schedules must be completed. The schedule(s) provide detailed information that enables the IRS to evaluate the likelihood of violations to the rules.

- Should the board consider changes in its policies and procedures, especially if there is a Yes response to questions 25, 26 or 27?



Form 990: A board member's review checklist

Part V—Statements Regarding Other IRS Filings and Tax Compliance

Part V acts as a checklist of other IRS compliance that might be required by the organization. It is intended to alert organizations about potential other compliance requirements that are not necessarily related to the Form 990.

- Have paid personnel been properly classified as employees rather than independent contractors to avoid payroll tax problems?
- If the organization is a charitable organization and received more than \$250 from a single donor, was a receipt furnished to enable the donor to substantiate his or her charitable contribution deduction?
- Is the organization potentially subject to unrecorded penalties and interest (e.g., if line 3b, 5c, 6b, 7b, 7g or 7h is answered “No,” or if line 5a, 5b, 8, 9a or 9b is answered “Yes”)?

Part VI—Governance, Management and Disclosure

Part VI asks questions about the governing body and management policies, and whether and how the organization promotes transparency and accountability to its donors.

- If the organization does not have board-adopted written policies indicated by lines 12a, 13, 14 and 16b, should the board consider adopting any of these?

- 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 tax on excess benefits if the organization is a Section 501(c)(3) or (c)(4) organization]?
- If the organization is conducting activities in multiple states, is it properly registered in those states and satisfying their filing requirements?

Part VII—Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees and Independent Contractors

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

- 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 there is a “No” response.)

Part VIII—Statement of Revenue

Part VIII provides detailed information on the organization's sources of support, including potentially taxable unrelated business income.

- 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)?
- Too much reliance on unrelated business income [as reported in column (C)] could risk an organization's exempt status. Is column (C) insignificant as compared to totals in column (A)?

Part IX—Statement of Functional Expenses

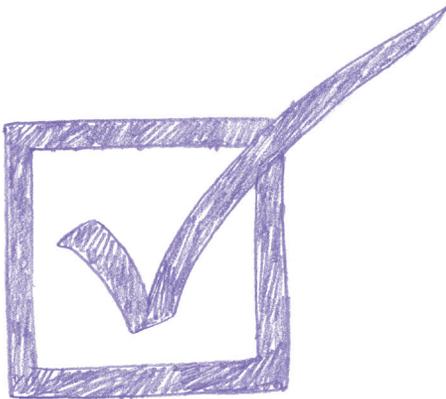
Part IX provides the IRS and donors with information to use in determining if an appropriate amount of expenditure is being directed to activities that further the organization's exempt purpose.

- Are compensation and benefits (lines 5 through 9) consuming too much of the organization's revenue?
- Are certain expenses justifiable (e.g., lines 11a -11g, 12, 17, 18 and 19)?
- 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)?

Part X—Balance Sheet

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

- Is an excessive amount of cash (line 1) being kept in non-interest bearing accounts?
- Are resources being diverted from program service activities to related party loans (lines 5 and 6)?
- Is oversight being exercised over related party loans to ensure adequate collateral, interest, timely repayment, etc.?
- Are notes and loans receivable (line 7) adequately collateralized and monitored for timely repayment?
- Does an increase, if any, in accounts payable or accrued expenses (line 17) during the year suggest potential cash flow problems?



Part XII—Financial Statements and Reporting

The purpose of Part XII is to explain the level of involvement by an independent accountant and explain the reporting required for any audits required for organizations that receive federal grants under the Single Audit Act and OMB Circular A-133.

- If the organization does not have an independent audit (line 2b), are its financial resources sufficiently large to make an independent audit prudent?
- 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)?

Schedule A—Public Charity Status and Public Support

Schedule A is used to indicate an organization's reason for public charity status (i.e., why it is not a private foundation) and to provide the IRS with detailed information about its sources of financial support.

- 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?

Schedule C—Political Campaign and Lobbying Activities

Schedule C provides the IRS with information concerning the political and lobbying activities of certain organizations. Section 501(c)(3) organizations are prohibited from participating in a political campaign and are subject to limitations on their lobbying activities.

- If exempt under Section 501(c)(3), are policies followed to prevent participation in a political campaign that could jeopardize tax-exempt status?
- 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)?

Schedule J—Compensation Information

The compensation information required in Schedule J is much more detailed than that required in Form 990 Part VII. Form 990 users will review Schedule J for evidence of waste, extravagance and financial abuse.

- If any box on line 1a is checked, is the economic benefit warranted or should it be re-examined?
- Does the organization require strict accountability for expense reimbursements to prevent abuse (lines 1b and 2)?
- 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.)
- 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?

Form 990: A board member's review checklist

Schedule L—Transactions with Interested Persons

Schedule L provides financial information on certain financial transactions or arrangements between the organization and disqualified persons or other interested persons.

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

Schedule O—Supplemental Information

Schedule O is used to provide narrative information required for responses to specific questions on Form 990.

- Is the 990 review process fully described?
- Does the organization describe how public documents (Forms 990, 990-T, if applicable, and 1023) are made available for public inspection (website, office, Guidestar, etc.)?

Contact information

Daniel Romano
Partner-in-Charge, NFP Tax
T 212.542.9609
E daniel.romano@us.gt.com

Rob Byrd
Partner
T 704.632.6785
E rob.byrd@us.gt.com

Joe DeTrane
Partner
T 415.318.2238
E joe.detrane@us.gt.com

Frank Giardini
Principal
T 215.656.3060
E frank.giardini@us.gt.com

Dawn Olivardia
Partner
T 407.481.5120
E dawn.olivardia@us.gt.com

www.grantthornton.com

This document supports the marketing of professional services by Grant Thornton LLP. It is not written tax advice directed at the particular facts and circumstances of any person. Persons interested in the subject of this document should contact Grant Thornton or their tax advisor to discuss the potential application of this subject matter to their particular facts and circumstances. Nothing herein shall be construed as imposing a limitation on any person from disclosing the tax treatment or tax structure of any matter addressed. To the extent this document may be considered written tax advice, in accordance with applicable professional regulations, unless expressly stated otherwise, any written advice contained in, forwarded with, or attached to this document is not intended or written by Grant Thornton LLP to be used, and cannot be used, by any person for the purpose of avoiding any penalties that may be imposed under the Internal Revenue Code.

Content in this publication is not intended to answer specific questions or suggest suitability of action in a particular case. For additional information on the issues discussed, consult a Grant Thornton client service partner.

www.grantthornton.com

© Grant Thornton LLP
All rights reserved
U.S. member firm of Grant Thornton International Ltd