

CHECKLIST C501

Board Review of Form 990 (See Key Issue 3C)

The Internal Revenue Service (IRS) believes that the governing board of an exempt organization must diligently work to ensure that the organization fulfills its exempt mission and to minimize the likelihood that its income or assets will be diverted improperly to nonexempt purposes.

A properly prepared Form 990 contains the information necessary for a board member to become well-informed about (1) the organization’s activities and (2) the applicable tax laws. 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 tax return was furnished to the board prior to filing. In addition, all organizations must describe the process, if any, the board uses to review Form 990.

For the board members of many organizations, a review of Form 990 that is more than cursory may seem overwhelming. Therefore, this checklist is designed to help board members who are not exempt organization tax practitioners comprehend the significance of the data in their organization’s Form 990.

	<u>Yes</u>	<u>No</u>
Part I: Summary		
1. Is the brief description of the organization’s mission or most significant activities candid and positive?	<input type="checkbox"/>	<input type="checkbox"/>
2. Does current year data (lines 8–19) compare favorably or unfavorably with the prior year?	<input type="checkbox"/>	<input type="checkbox"/>

Part III: Statement of Program Service Accomplishments		
1. 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, based on its key activities, giving the organization an opportunity to promote its accomplishments?	<input type="checkbox"/>	<input type="checkbox"/>
2. Has the mission statement on line 1 been adopted by the board of directors?	<input type="checkbox"/>	<input type="checkbox"/>
3. Are the three program services described consistent with the organization’s mission statement and information on its website?	<input type="checkbox"/>	<input type="checkbox"/>
4. Are the three program services described in sufficient detail to present a comprehensive and accurate portrayal of the organization to the Form 990 user?	<input type="checkbox"/>	<input type="checkbox"/>

Part IV: Checklist of Required Schedules		
1. Should the board consider changes in its policies and procedures, especially if question 25a or b, 26, 27, or 28a, b, or c is answered “Yes”?	<input type="checkbox"/>	<input type="checkbox"/>

Part V: Statements Regarding Other IRS Filings and Tax Compliance		
1. Have paid personnel been properly classified as employees rather than independent contractors to avoid payroll tax problems?	<input type="checkbox"/>	<input type="checkbox"/>
2. Were payroll taxes deposited with the IRS on a timely basis?	<input type="checkbox"/>	<input type="checkbox"/>
3. If applicable, were other filings or notifications indicated in Part V made timely since any failure indicates an administrative shortcoming?	<input type="checkbox"/>	<input type="checkbox"/>
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 or her charitable contribution deduction?	<input type="checkbox"/>	<input type="checkbox"/>
5. Is the organization potentially subject to unrecorded penalties and interest (e.g., if line 3b, 5c, 6b, 7b, 7c, 7g, or 7h is answered “No,” or if line 5a, 5b, 8, 9a, or 9b is answered “Yes”)?	<input type="checkbox"/>	<input type="checkbox"/>

	<u>Yes</u>	<u>No</u>
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Part VI: Governance, Management, and Disclosure

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| 1. If the organization does not have the written policies indicated by lines 10b, 12a, 13, 14, and 16b, should the board consider adopting any of these? | <input type="checkbox"/> | <input type="checkbox"/> |
| 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), (c)(4), or (c)(29) entity]? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. If the organization is conducting activities in multiple states, is it properly registered in those states and satisfying their filing requirements? | <input type="checkbox"/> | <input type="checkbox"/> |

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

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| 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.") | <input type="checkbox"/> | <input type="checkbox"/> |
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Part VIII: Statement of Revenue

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| 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)? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Too much 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)? | <input type="checkbox"/> | <input type="checkbox"/> |

Part IX: Statement of Functional Expenses

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| 1. Are compensation and benefits (lines 5 through 9) consuming too much of the organization's revenue? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are certain expenses justifiable (e.g., lines 11a through 11g, 12, 17, 18, and 19)? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Are nonfixed expenditures in excess of a specified amount (e.g., \$1,000) subject to prior approval by an appropriate officer? | <input type="checkbox"/> | <input type="checkbox"/> |
| 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)? | <input type="checkbox"/> | <input type="checkbox"/> |

Part X: Balance Sheet

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| 1. Is an excessive amount of cash (line 1) being kept in noninterest bearing accounts? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are resources being diverted from program service activities to related party loans (lines 5 and 6)? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Is oversight being exercised over related party loans to ensure adequate collateral, interest timely repayment, etc.? | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Are notes and loans receivable (line 7) adequately collateralized and monitored for timely repayment? | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Does an increase, if any, in accounts payable and accrued expenses (line 17) during the year suggest potential cash flow problems? | <input type="checkbox"/> | <input type="checkbox"/> |
| 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)? | <input type="checkbox"/> | <input type="checkbox"/> |

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| 7. If the organization has restricted assets (lines 28 and 29), are the restrictions being observed? | <input type="checkbox"/> | <input type="checkbox"/> |

Part XI: Reconciliation of Net Assets

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| 1. Does line 10 equal Part X, line 33, column (B)? | <input type="checkbox"/> | <input type="checkbox"/> |
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Part XII: Financial Statements and Reporting

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| 1. If the organization does not have an independent audit (line 2b), are its financial resources sufficiently large to make an independent audit prudent? | <input type="checkbox"/> | <input type="checkbox"/> |
| 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)? | <input type="checkbox"/> | <input type="checkbox"/> |
| 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)? | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. If a management letter prepared by the auditor was received, did the organization adopt the recommendations it contained? | <input type="checkbox"/> | <input type="checkbox"/> |

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

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| 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? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are procedures in place to monitor public charity status to ensure the organization maintains its public charity status (instead of becoming a private foundation)? | <input type="checkbox"/> | <input type="checkbox"/> |

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

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| 1. If exempt under IRC Sec. 501(c)(3), are policies followed to prevent participation in a political campaign that could jeopardize tax-exempt status? | <input type="checkbox"/> | <input type="checkbox"/> |
| 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? | <input type="checkbox"/> | <input type="checkbox"/> |
| 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)? | <input type="checkbox"/> | <input type="checkbox"/> |

Schedule J: Compensation Information

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