



THE NEW FEDERAL FORM 990

What a Board Member Needs to Know

Preface: *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, the 2008 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 document 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.

Part I: Summary - Provides a snapshot of the organization's purpose, staffing, sources of financial support, and use of funds.

- Is the brief description of the organization's mission or most significant activities candid and positive?
- Does current year data (lines 8–19) compare favorably or unfavorably with the prior year?

Part III: Statement of Program Service Accomplishments - 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.

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

Part VI: Governance, Management, and Disclosure - The IRS requires exempt organizations to adopt policies and practices that promote good governance and operational transparency, which should help foster tax law compliance.

- 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?
- 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]?



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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 directors (or trustees) and certain 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 either is answered "No.")
- Are hours listed accurate and reasonable compared to the listed person's responsibility and compensation?
- Are the listed individuals correctly classified in column C?

Part IX: Statement of Functional Expenses - Offers the Form 990 user insight into the organization's activities. The magnitude of certain expenses may indicate poor or inadequate management.

- Are compensation and benefits (lines 5 through 9) consuming most of the organization's revenue?
- Are certain expenses justifiable (e.g., lines 11a through 11g, 12, 17, 18, and 19)?
- Are non-fixed expenditures in excess of a specified amount (e.g., \$1,000) subject to prior approval by an appropriate officer?
- 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 - Provides information that can indicate whether the organization is financially healthy.

- Are resources being diverted from program service activities to related party loans (lines 5 and 6)?
- Does an increase, if any, in accounts payable and accrued expenses (line 17) during the year suggest potential cash flow problems?
- 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)?
- If the organization has restricted assets (lines 28 and 29), are the restrictions being observed?

Part XI: Financial Statements and Reporting - Provides additional information to enable the user to interpret Form 990 and assess its credibility.

- 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)?
- 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: Public Charity Status and Public Support - Focuses on the public charity status of a Section 501(c)(3) organization.

- 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 - Provides information on the political and lobbying activities of certain organizations.

- 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?
- 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?
- 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

- 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?

Schedule L: Transactions with Interested Persons

- Have all interested persons been identified for the current tax period?
- Have all business transactions with interested persons been brought to the attention of the tax preparer for consideration of disclosure in Schedule L, Part IV?
- If loans to interested persons were reported on Part X, Line 6 of the Form 990, have they been properly disclosed in Part II of Schedule L?

Schedule O: Overflow – Provides additional space for explanations and descriptions related to various policies and procedures of the organization.

- Do the additional disclosures appear to be complete and accurate based on the understanding of the organization and its policies and procedures?