

GUIDANCE FOR BOARD REVIEW OF IRS FORM 990

Introduction:

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

A properly prepared IRS Form 990 contains the information necessary for a board member to become better informed about:

- 1) The Community Foundation's activities and
- 2) The applicable tax laws

An understanding of both these areas is essential in order for the board member to effectively perform his or her fiduciary responsibilities. For this reason, the IRS Form 990 asks whether the tax return was furnished to the board prior to filing. In addition, all Community Foundations must describe the process, if any; the board uses to review the IRS Form 990.

A review of the IRS Form 990 may seem overwhelming. Therefore, the attached information is provided to assist your understanding of the significance of the data and further guide your review.

Page 1, Part 1: Summary

Overview: Part I provides a snapshot of the Community Foundation's purpose, staffing, sources of financial support, and use of funds.

Key Reviewer Questions:

- a) Is the brief description of the Community Foundation's mission or most significant activities candid and positive?
- b) Does the board need to update the Community Foundation's mission based on its current and prior activities?
- c) Does the board need to revise its mission based on future plans?
- d) Does current year data (lines 8-22) compare favorably or unfavorably with the prior year?
- e) Do total fundraising expenses appear reasonable to total contributions and grants?

Page 2, Part III: Statement of Program Service Accomplishments

Overview: The information disclosed in Part III explains to the user of the IRS Form 990 why the Community Foundation exists, based on its key activities. Users of the IRS Form 990 include the IRS, state charity registration, prospective donors, and investigative reporters. It also affords an opportunity for the Community Foundation to promote its accomplishments.

Key Reviewer Questions:

- a) Are the program services described consistent with the Community Foundation's mission statement and information on its website?
- b) Has the mission statement on line 1 been adopted by the board of directors?
- c) Are the program services described in sufficient detail to present a comprehensive and accurate portrayal of the Community Foundation to the IRS Form 990 user?

- d) Are the program services described explained to the user of the IRS Form 990 (e.g. the IRS, prospective donors, or investigative reporters) why the organization exists, based on its key activities, giving the Community Foundation an opportunity to promote its accomplishments?

Page 3 & 4, Part IV: Checklist of Required Schedules

Overview: 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. (Could highlight questions 6, 11a, 12a or 28 as examples)

Key Reviewer Questions:

- 1) Is the Community Foundation 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) Based on "Yes" responses, are the needed schedule(s) prepared and included with the IRS Form 990 package?

Page 5, Part V: Statements Regarding Other IRS Filings and Tax Compliance

Overview: An exempt Community Foundation is potentially subject to several other filing requirements in addition to IRS Form 990.

Key Reviewer Questions:

- a) Have paid personnel been properly classified as employees rather than independent contractors to avoid payroll tax problems?
- b) Were payroll taxes deposited with the IRS on a timely basis?
- c) If applicable, were other filings or notifications indicated in Part V made timely since any failure indicates an administrative shortcoming?
- d) If the Community Foundation 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?
- e) If the Community Foundation received more than \$75 from a single donor who received goods or services, was a receipt furnished timely and an estimated fair market value of benefit received to enable the donor to know and to substantiate his or her charitable contribution deduction? (See line 7b)
- e) Is the Community Foundation potentially subject to unrecorded penalties and interest such as if line 3b, 5c, 6b,7b, 7g, or 7h are answered "No" or if line 5a, 5b, 8, 9a, or 9b are answered "Yes" (Responses do not indicate risk of unrecorded penalties and interest.)

Page 6, Part VI: Governance, Management, and Disclosure

Overview: The IRS requires exempt organizations to adopt policies and practices that promote good governance and operational transparency, which should help foster tax law compliance. (Could highlight questions 2, 8a, or 8b)

Key Reviewer Questions:

- a) Should the board consider any changes to its policies and procedures indicated by lines 12a, 13, 14, and 16b?

- b) 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?
- c) If the Community Foundation is conducting activities in multiple states, is it properly registered in those states and satisfying their filing requirements?

Page 7 & 8, Part VII: Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

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

Key Reviewer Questions:

- a) Do the average hours per week appear reasonable?
- b) Is the officers and directors list of all members of the board who served all or part of the year ended X/XX/20XX?
- c) Does the compensation of those listed in Part VII appear justifiable in view of the organization's activities and their responsibilities?

Page 9, Part VIII: Statement of Revenue

Overview: 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.

Key Reviewer Questions:

- a) 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?
- b) Should alternative revenue sources be considered or emphasized?
- c) 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)?

Page 10, Part IX: Statement of Functional Expenses

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

Key Reviewer Questions:

- a) Are the compensation and benefits (line 5 through 9) consuming too much of the organization's revenue?
- b) Are certain expenses justifiable such as line 11 through 19?
- c) Do column (C) Management & General and column (D) Fundraising expenses totals appear excessive relative to total program service expenses in column (B) program services
- d) Some ratios to consider:
 - ✓ Program expenses (B) to total expenses (A) – should be at least 70% - 80%
 - ✓ Total fundraising (D) and general (C) to total expenses (A) – should be no more than 25% - 30%

Page 11, Part X: Balance Sheet

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

Key Reviewer Questions:

- a) Is an excessive amount of cash (line 1) being kept in noninterest bearing accounts?
- b) Does an increase, if any, in accounts payable and accrued expenses (line 17) during the year suggest potential cash flow problems?
- c) 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?
- d) If the Community Foundation has restricted assets (line 28 and 29), are the restrictions being observed?

Page 12, Part XI: Reconciliation of Net Assets

Overview: Part XI provides reconciliation of revenue less expense plus net assets beginning to net assets ending.

Key Reviewer Questions:

- a) Does line 10 equal Part X, line 33, column (B)?

Page 12, Part XII: Financial Statements and Reporting

Overview: Part XII provides additional information to enable the user to interpret IRS Form 990 and assess its credibility.

Key Reviewer Questions:

- a) Do the auditor's report to the group responsible for overseeing the financial reporting process such as an audit committee?
- b) Does each member of the group responsible for the overseeing the financial reporting processes receive a copy of the auditor's report and any additional communications such as internal control communications or a management letter?
- c) If a management letter prepared by the auditor was received, did the organization adopt the recommendations it contained?

Schedule A: Public Charity Status and Public Support

Overview: Schedule A focuses on the public charity status of Section 501(c)(3) organizations. To be a public charity, at least 33 1/3% of contributions must be from the general public.

Key Reviewer Questions:

- a) Does the data in Part II Section C indicate that the organization is in danger of becoming a Private Foundation rather than remaining a public charity?

Schedule B: Schedule of Contributors

Overview: This schedule is not open to the public. This schedule only provides the names and addresses to the IRS and the Board of Directors. The names and addresses are removed from the Inspection Copy of the return and the copy of the return that appears on Guidestar. This schedule is prepared on a cash basis.

Key Reviewer Questions:

- a) Does the list of individual contributions seem comparable to the amount stated on

Schedule A, Part II, line 6 for donors giving more than 2%?

Schedule D: Supplemental Financial Statements

Overview: Schedule D is completed based on responses in Form 990, page 3, Part IV, lines 6-12.

Key Reviewer Questions:

- a) Was there a "Yes" to any of Page 3, Part IV, lines 6-12?
- b) Does Schedule D, page 3 agree with related lines on Page 11, Part X?
- c) Does Schedule D, page 4 agree with audited financial statements and their respective reference sections the IRS Form 990?
- d) Does Schedule D, page 4 and 5 provide the descriptions required for Schedule D completed parts

Schedule G: Supplemental Information Regarding Fundraising or Gaming Activities

Overview: Schedule G is completed based on responses in Form 990, page 3, Part IV, lines 17-19. (Remember gaming activities include any game of chance includes bingo, raffles, 50/50 drawings and door prizes.)

Key Reviewer Questions:

- a) Was there a "Yes" answer to any of IRS Form 990, page 3, Part IV, line 17-19?
- b) Does Schedule G, Page 2, Part II, line 3, 8, and 9 agree with IRS Form 990, page 9, Part VIII, line 8a, 8b, and 8c?

Schedule I: Grants and Other Assistance to Organizations, Governments, and Individuals in the U.S.

Overview: Schedule I is completed based on responses in Form 990, page 4, Part IV, lines 21-22.

Key Reviewer Questions:

- a) Was there a "Yes" answer to Page 3, Part IV, line 21 or 22?
- b) Do procedures for monitoring described on Schedule I, Page 2, Part IV, appear reasonable and adequate?

Schedule O: Supplemental Information to Form 990

Overview: Schedule O is completed based on response in Form 990, page 4, Part IV, line 38.

Key Reviewer Questions:

- a) Is the narrative on Schedule O positive, accurate, and adequate?
- b) Does the narrative include response to Form 990, page 6, Part VI, line 11 and 19?
- c) Does the narrative include response to any question for which a box is checked on Form 990, pages 2, 5, 6, 7, and 12?