990 Review Checklist Tool

For Audit Committees or Other Governing Groups

Many organizations have chosen to respond to the 990 question regarding review of the form by asking their audit committee or executive committee to review the form. This is an informal checklist to assist committee members with that process.

Part I

- ❑ **Line 1** – Use this opportunity to showcase the main focus of the organization. It doesn't have to be the exact mission statement. Consider keeping it short so that it all stays on the front page where funding sources can easily see it.
- ❑ **Lines 2 and 3** – Since these questions directly to governance, this is a good item to double check. The definition of an independent member is included in the 990 glossary.
- ❑ **Lines 7a and 7b** – Consider the possibility that some revenues sources may be unrelated business income. Investments in limited partnerships, including hedge funds, may result in unrelated business income.
- ❑ **Line 12** – The board should be familiar with the requirements of California's Nonprofit Integrity Act related to the use of professional fundraisers, and make sure that this is disclosed here if needed.

Part II

- ❑ Must be signed by an officer.

Part III

- ❑ **Line 1** – This should be the mission statement adopted by the board. According to the form instructions, if the board has not adopted a mission statement, this line should state "none."
- ❑ **Lines 2 and 3** – Check to make sure any significant new activities or cessation of activities have been disclosed.
- ❑ **Line 4** – This is another opportunity to tell the world about the organization's activities and accomplishments. Inquire whether senior development and program staff has reviewed the narrative.

Part IV

- ❑ Ask your management staff or outside CPAs to explain which schedules have been prepared and why. The most common schedules for 501(c)(3) organizations are:
    - ✓ **Schedule A** – Reason for Public Charity Status – must be filed for all 501(c)(3) organizations
    - ✓ **Schedule B** – Schedule of Contributors – most likely would need to be filed for a 501(c)(3), but may not depending on the base of contributors.
    - ✓ **Schedule D** – Supplemental Financial Statements – Almost every organization ends up filing this because of fixed assets and unrealized gains/losses on investments. There may be other required information as well, such as endowment disclosures and information on collections. Note that the Other Assets and Other Liabilities sections are completed only if they exceed 5% of the total assets or liabilities.
    - ✓ **Schedule J** – Compensation Information – This is required for any organization with an employee receiving $150,000 or more in compensation. There are a few other triggers as well, described in Part VII.
    - ✓ **Schedule O** – This schedule provides narrative for certain items. It can include optional explanations, but must be included for all organizations if only to describe the organization's 990 review process and whether the organization makes its governing documents, conflict of interest policy and financial statements available to the public. There are several other items that require explanation if they are applicable, so this might be relatively lengthy. As far as optional explanations, you can use it to give more information on anything that might be outside the norm. For example, your organization received a donated interest in a closely held company. As a result, you incurred unrelated business income. The organization did not have the information that it needed to file the 990-T on time, and incurred a penalty that needs to be disclosed on the 990. You could provide that explanation here.

Part V – Statements Regarding Other IRS Filings and Tax Compliance

- ❑ Make sure that your organization has responded yes to all questions regarding filing requirements. If not, your management should explain their plan to get in compliance. Board members could be held individually responsible if payroll tax withholdings are not properly remitted.
- ❑ **Line 7a** – This question will frequently be yes, since many organizations have fundraising events in which attendees receive value in excess of $75.

Part VI – Governance, Management and Disclosure

- ❑ **Section A** – Consider each question carefully. These directly related to governance of the organization and the audit committee should have first-hand knowledge of these issues.
- ❑ **Line 10** – Many organizations are choosing to provide a copy to all board members, which is the only way an organization may respond yes to this question. However, most organizations are also choosing to assign review responsibility to a particularly committee. You will describe your process, whatever it may be, on Schedule O.
- ❑ **Section B** – Your organization should respond yes to these policy questions only if they were adopted as of the end of the fiscal year for which you are filing the 990. If you are missing certain policies, consider describing your existing practice or your plan for establishing such policies in Schedule O. Funding sources may consider these as a factor.
- ❑ **Section C** – You will need to describe whether and how the organization makes its governing documents, conflict of interest policy and financial statements available to the public. This is a good opportunity for the board to discuss how much transparency the organization should have. California's Nonprofit Integrity Act requires that organizations make their financial statements available to the public, but does not prescribe a method. Consider whether posting these documents on your website would be a good donor relations tool.

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

- ❑ Make sure you understand the definitions of each type of individual whose compensation needs to be disclosed within this section. The IRS is highly focused on compensation issues, so this is an area that extra care should be taken.
    - ✓ All Current Officers, Directors, Trustees, & Key Employees – regardless of amount of compensation
    - ✓ Five Current HCE's (other than above) w/ highest reportable compensation (W-2 & 1099-MISC) > $100,000 from the organization & related organizations
    - ✓ All Former Officers, Key Employees & HCE's w/ reportable compensation > $100,000 from the organization & related organizations
    - ✓ All Former Directors & Trustees that received, in the capacity of Former Director & Trustee, w/ reportable compensation > $10,000 from the organization & related organizations
    - ✓ Reportable Compensation > $150,000 ($150,000 test)
    - ✓ Had Organization-Wide Responsibilities and/or Scope Similar to Officer or Director – or Managed at Least 10% of Activities (Responsibility Test)
    - ✓ One of Top 20 Highest Paid Who Satisfied Both $150,000 Test & Responsibility Test
- ❑ Amounts to be Reported
    - ✓ Reportable Compensation (W-2 & 1099-MISC) from the Organization – Note that for fiscal year entities, you will report calendar year information
    - ✓ Reportable Compensation from Related Organizations
    - ✓ Estimated Other Compensation from the Organization and Related Organizations
- ❑ Line 3-5 on page 8 determine whether you will need to file Schedule J

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Part VIII – Statement of Revenue

- ❑ Review for reasonableness.
- ❑ Note that this will not match the audited Statement of Activities if the organization has unrealized gains/losses on investments or donated services.
- ❑ Income from fundraising events may be presented differently here that on the Statement of Activities. Contributions related to fundraising events should be reported on Line 1c. This may mean that an organization shows a loss or very little net income on Line 8c.
- ❑ **Line 9** – Gaming activities are subject to unrelated business income tax. Discuss these with management or your outside accounts to make sure that you are reporting properly and that you are complying with California's requirement regarding gaming events.

Part IX – Statement of Functional Expenses

- ❑ Review your percentages for each category to see if your organization remains in your targeted benchmark areas for program, management and fundraising expenses.
- ❑ Note that accounting is considered solely management and professional fundraising fees would be solely fundraising.
- ❑ **Line 5** – Compensation of current officers, directors, trustees and key employees will not agree to Part VII for fiscal year organizations.

Part X – Balance Sheet

- ❑ Check that this is consistent with the organization's GAAP financial statements.
- ❑ Review the allocation of types of investments on Lines 11 - 13.
- ❑ Note that all organizations have been required to follow SFAS 117 since the mid-1990s, unless their financial statements are not reported under GAAP.

Part XI – Financial Statements and Reporting

- ❑ Review each question for accuracy.
- ❑ Describe the oversight process of Line 2c if it has changed from the prior year.