

# The Board's Role in REVIEWING FORM 990

## A Checklist

All tax-exempt organizations must report annually to the IRS on their financial and other activities — including their governance activities. They do this by filing a Form 990, Return of Organization Exempt from Income Tax.

Many organizations provide a CPA or legal counsel with the pertinent information and then rely on him or her to complete the form. Regardless of who completes the form, however, all organizations should ensure that the chief executive and either the board chair or the chair of the audit (or finance/audit committee) committee examines it closely prior to filing. As fiduciaries, all board members also should be familiar with it. In Part VI, Section A of the form, the IRS asks whether the board receives a copy and what its review process is.

To help your board review the completed form, BoardSource provides the following checklist pertaining to governance. If your board members flag any of the items on the checklist, address them before filing the form with the IRS. When reviewing the form, keep the following in mind:

- **Is it accurate?** Form 990 serves as introduction to your organization and is reviewed by the IRS, your constituents, donors, and the media. You do not want to share inaccurate information.
- **Are you meeting legal requirements?** The IRS recognizes your tax-exempt status. Form 990 allows the IRS to verify that your organization meets the expectations and deserves its special status.
- **“No” answers may raise red or yellow flags in the eyes of the IRS.** They may lead to a heightened audit profile. Are there justified reasons for your “no” answers? Have you explained the reasons sufficiently in [Schedule O](#)?
- **Have you done your due diligence in justifying various interdependencies and relationships among your insiders or individuals or entities with which your organization does business?**
- **Are those who are compensated for services truly earning their compensation?** Familiarize yourself with the IRS's [intermediate sanctions](#) and safe harbor clauses and follow them to protect yourself and your organization.

### LIST OF BOARD MEMBERS

The IRS requires you to list the names and titles of all board members and officers, whether or not compensation is provided. **Have you done so and is the information correct?**

### NUMBER OF VOTING MEMBERS

The IRS wants to know the size of your decision-making body/board. Do not include ex-officio non-voting members in this number. If your chief executive is a voting member, you must add him or her to this number. **Is this number correct?**

### INDEPENDENCE OF BOARD MEMBERS

The IRS wants to ensure that your voting board members are independent as it pertains to three conditions: 1) No compensation as an officer or employee of the organization; 2) No (or less than \$10,000) compensation as a contractor to the organization or a related organization; 3) No other financial transactions directly with the organization or a related organization or to a family member with the organization or a related organization. **Are your board members independent?**

	✓ YES	🚩 NO
LIST OF BOARD MEMBERS The IRS requires you to list the names and titles of all board members and officers, whether or not compensation is provided. <b>Have you done so and is the information correct?</b>	<input type="checkbox"/>	<input type="checkbox"/>
NUMBER OF VOTING MEMBERS The IRS wants to know the size of your decision-making body/board. Do not include ex-officio non-voting members in this number. If your chief executive is a voting member, you must add him or her to this number. <b>Is this number correct?</b>	<input type="checkbox"/>	<input type="checkbox"/>
INDEPENDENCE OF BOARD MEMBERS The IRS wants to ensure that your voting board members are independent as it pertains to three conditions: 1) No compensation as an officer or employee of the organization; 2) No (or less than \$10,000) compensation as a contractor to the organization or a related organization; 3) No other financial transactions directly with the organization or a related organization or to a family member with the organization or a related organization. <b>Are your board members independent?</b>	<input type="checkbox"/>	<input type="checkbox"/>

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### COMPENSATION OF BOARD MEMBERS, OFFICERS, AND KEY EMPLOYEES

Compensation is of primary concern to the IRS. Above all, it wants to ensure that no tax-exempt organization is involved in private inurement, undue or excessive remuneration for services not provided, or that decisions related to financial transactions are made by insiders who have a conflict of interest in the outcome.

**Do your board members serve as volunteers without compensation? If they are compensated, is it reported? If you compensated any former board members more than \$10,000, did you report it? After five years, one is no longer a "former board member."**

**Have you reported any "key" employees\* earning more than \$150,000? (Your CEO and COO are not key employees; they are considered officers of the organization.)**

**Have you reported any non-key employees earning more than \$100,000?**

**If you compensated any independent contractors more than \$100,000, have you reported it?**

**If you compensated any former officers or any former key employees more than \$100,000, did you report it?**

### COMPENSATION PROCESS

The IRS focuses on the process of determining compensation for the chief executive and other key individuals.

**Is your board adhering to the intermediate sanctions' safe harbor clauses?**

**Do you rely on comparable data when setting compensation?**

**Do independent individuals approve the compensation for top management?**

**Does the board keep accurate and contemporaneous records of how it makes compensation decisions?**

### LOANS

The IRS wants to ensure that the board is an independent body that makes decisions for the good of the organization without weighing in personal benefits.

**Did the organization refrain from providing loans, grants, or other financial assistance to board members, officers, or key employees?**

	✓ YES	✗ NO
Do your board members serve as volunteers without compensation? If they are compensated, is it reported? If you compensated any former board members more than \$10,000, did you report it? After five years, one is no longer a "former board member."	<input type="checkbox"/>	<input type="checkbox"/>
Have you reported any "key" employees* earning more than \$150,000? (Your CEO and COO are not key employees; they are considered officers of the organization.)	<input type="checkbox"/>	<input type="checkbox"/>
Have you reported any non-key employees earning more than \$100,000?	<input type="checkbox"/>	<input type="checkbox"/>
If you compensated any independent contractors more than \$100,000, have you reported it?	<input type="checkbox"/>	<input type="checkbox"/>
If you compensated any former officers or any former key employees more than \$100,000, did you report it?	<input type="checkbox"/>	<input type="checkbox"/>
Is your board adhering to the intermediate sanctions' safe harbor clauses?	<input type="checkbox"/>	<input type="checkbox"/>
Do you rely on comparable data when setting compensation?	<input type="checkbox"/>	<input type="checkbox"/>
Do independent individuals approve the compensation for top management?	<input type="checkbox"/>	<input type="checkbox"/>
Does the board keep accurate and contemporaneous records of how it makes compensation decisions?	<input type="checkbox"/>	<input type="checkbox"/>
Did the organization refrain from providing loans, grants, or other financial assistance to board members, officers, or key employees?	<input type="checkbox"/>	<input type="checkbox"/>

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### DELEGATION OF AUTHORITY

If your board delegates part of its authority to an executive or similar committee, have you described the composition of this group and the scope of its authority in Schedule O?

✓ YES	🚩 NO
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If any board decisions are subject to approval by members, stockholders, or other persons, have you reported this?



### BOARD PRACTICES

Did your board members refrain from engaging in direct or indirect campaign activities on behalf of or in opposition to candidates for public office or engage in lobbying?



Did the board and each committee with authority to act on behalf of the board contemporaneously document the meetings held or written actions undertaken during the year?



Does the organization have members, stockholders, or other persons who may elect one or more members of the board, and if so, is it reported?



### BOARD POLICIES

Do you have a written conflict-of-interest (COI) policy, are board members and key staff required to disclose interests that could lead to conflict, and are these situations monitored and enforced? Do you share your COI policy (as well as your governing and financial statements and Form 990) with the public?



Does the organization have a written whistleblower policy and document retention and destruction policy?



Did the organization make any significant changes to its articles of incorporation or bylaws since the prior Form 990 was filed and, if so, are they explained in Schedule O?



Does the organization have a gift acceptance policy that requires the review of any non-standard contributions?



### FINANCES

Are any assets held in term, permanent, or quasi-endowments reported?



Did the organization receive an audited financial statement for the year for which it is completing this return that was prepared in accordance with GAAP?

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	✓ YES	✗ NO
Were the organization's financial statements compiled or reviewed by an independent accountant? If "Yes," does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant?	<input type="checkbox"/>	<input type="checkbox"/>
Are any non-cash contributions to the organization valued more than \$25,000 — or any contributions of art, historical treasures, or other similar assets, or qualified conservation contributions — reported?	<input type="checkbox"/>	<input type="checkbox"/>
Is any unrelated business income of \$1,000 or more reported?	<input type="checkbox"/>	<input type="checkbox"/>
If the organization invested in, contributed to, or participated in a joint venture or similar arrangement with a taxable entity during the year, has the organization adopted a written policy or procedure requiring the organization to evaluate its participation under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such an arrangement?	<input type="checkbox"/>	<input type="checkbox"/>
<b>MISSION AND PROGRAMS</b>		
Have you accurately and succinctly described your mission?	<input type="checkbox"/>	<input type="checkbox"/>
If you made any significant changes to your programs — adding, ending, or altering how you deliver your programs — have you explained them in Schedule O?	<input type="checkbox"/>	<input type="checkbox"/>
Have you accurately described the achievements for your three largest program services by revenue?	<input type="checkbox"/>	<input type="checkbox"/>
If you have chapters, branches, or affiliates, do you have written policies and procedures governing their activities to ensure consistency with the organization?	<input type="checkbox"/>	<input type="checkbox"/>

**\*Who is a key employee?** A key employee meets the following tests:

- Received annual compensation in excess of \$150,000.
- Has responsibilities, powers, or influences over the organization that are similar to that held by an officer (e.g., CEO, CFO, COO) or a board member.
- Manages a discrete segment or activity that represents 10 percent or more of the organization's activities, assets, income, or expenses.
- Has or shares the authority to control or determine 10 percent of the organization's capital expenditures, operating budget, or compensation for employees.
- Is one of the top 20 employees who pass the \$150,000 and responsibility tests.