



Blue & Co., LLC / 12800 N. Meridian Street, Suite 400 / Carmel, IN 46032
main 317.848.8920 fax 317.573.2458 email blue@blueandco.com

February 27, 2008

The Pastoral Commission for Hispanic Ministries
Central Pastoral Office for Hispanic Ministries
Indianapolis, Indiana

Dear Members of the Board:

We are pleased to have provided audit services to the Central Pastoral Office for Hispanic Ministries of the Christian Church (Disciples of Christ) (the "Organization") for the year ended December 31, 2006.

One of our responsibilities is to present to you information regarding the scope and results of the audit to assist you in overseeing the financial disclosure and reporting process for which management of the Organization is responsible. The comments which follow are intended for that purpose.

THE AUDITOR'S RESPONSIBILITY

Our audit, performed under auditing standards generally accepted in the United States of America, is designed to provide reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.

Similarly, under these same standards, we obtain a sufficient understanding of internal controls to plan the audit, but this understanding and any tests of selected internal controls that may be performed are not sufficient for us to express an opinion on the effective operation of internal controls.

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. The Pastoral Commission for Hispanic Ministries (the "Board") should be informed about the initial selection of and changes in significant accounting policies or their application. The Board should also be informed about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

While we believe that management has the primary responsibility to inform the Board of policy selection, changes, or methods of application, we are aware of no such matters requiring communication herein.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Significant areas involving the use of estimates and assumptions include the collectibility of contributions receivable, the depreciation of property and equipment, and the functional allocation of expenses.

None of these areas involve estimates that we consider to be particularly sensitive for purposes of this report.

SIGNIFICANT AUDIT ADJUSTMENTS

We are responsible for informing the Board about adjustments arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the Organization's financial reporting process.

There were eleven total adjustments that arose during our audit. The overall financial statement impact of the adjustments was to increase the change in net assets by \$34,460. A brief summary of the significant adjustments follows:

- Entry to record amounts due from related organizations at December 31, 2006. This entry increased the change in net assets by \$26,827.
- Entry to record accounts payable at December 31, 2006. This entry decreased the change in net assets by \$4,538.
- Entry to accrue additional payroll at December 31, 2006. This entry decreased the change in net assets by \$3,758.
- Entries to record prior period adjustment for errors made in recording accrued payroll, accounts payable, and contributions payable. These entries decreased the General Fund's beginning net asset and increased the change in net assets for 2006 by \$16,315.
- Entry to reclassify funds held for others totaling \$9,656 from cash for financial reporting purposes. This entry had no impact on the change in net assets.
- Entry to reclassify investment income totaling \$7,619 to the proper net asset class. This entry had no impact on the total change in net assets.

In addition, a possible adjustment was identified, but not posted to the Organization's accounting records because its overall effect on the financial statements was determined to be immaterial. This possible adjustment was an entry to write-off uncollectible accounts receivable balances. This entry would have decreased the change in net assets by \$3,354.

Our judgment as to what is significant is based on the auditor's concept of materiality, which is defined as the effect of misstatements which would cause the financial statements to not be presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. This judgment is based on various factors, including the effect on individual financial statement line items, or the change in net assets, or total net assets, and this may not be the same as management's judgment of what is significant.

DISAGREEMENTS WITH MANAGEMENT

There were no disagreements with management over the application of accounting principles, basis for estimates made by management, scope of the audit, disclosures to be made in the Organization's financial statements, or the wording of the auditor's report.

PERFORMANCE OF THE AUDIT

The challenges encountered in performing the audit related primarily to the fact that the Organization had not been audited in prior years, and the start-up audit effort and information gathering related thereto. The Organization's personnel were helpful and accessible throughout the audit process.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION

In connection with our audit planning, we discussed with management two Statements on Auditing Standards (SAS) that were first effective for the current year's audit. The two standards to which we are referring are known as SAS No. 103 and SAS No. 112.

SAS No. 103, Audit Documentation, requires that the auditor's report on the financial statements not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion on the financial statements. This evidence includes obtaining all open items of correspondence needed to complete the audit, a review and approval of the financial statements by your Organization's management, and the receipt of the signed audit representation letter from management.

SAS No. 112, Communicating Internal Control Related Matters Identified in an Audit, establishes standards and provides guidance on communicating matters related to an

organization's internal control over financial reporting identified in an audit of financial statements. In particular, this SAS:

- Defines the terms significant deficiency and material weakness.
- Provides guidance on evaluating the severity of control deficiencies, including considering the internal control implications of adjustments arising during the audit, and considering management's ability to prepare financial statements in accordance with generally accepted accounting principles.
- Requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

No other major issues were discussed with management in connection with our retention as auditors.

INTERNAL CONTROL SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

In planning and performing our audit of the financial statements of the Organization as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

Significant Deficiencies

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We believe that the following deficiencies represent significant deficiencies in internal control:

Strengthen Controls over the Receipts Process

Currently the Administrative Associate opens the mail, summarizes the contributions and other monies received, posts the receipts into the accounting system, and prepares the bank deposit. We understand that this concentration of responsibilities is a function of the size of the Organization and the number of staff. However, the concentration of duties places the Organization at some risk, and is not a good position in which to place a valuable employee.

We believe that the controls would be strengthened in this important area by requiring that two people be involved in the process of opening the mail and processing the receipts. Both individuals should evidence the opening of the mail and identification of all checks received. A calculator tape of the checks received in the mail should be prepared, and this tape should be signed by both individuals present. The Administrative Associate could then process the receipts in the normal fashion, while the second individual retains the calculator tape, which should be compared to the posting in the accounting system and to the deposit slip after the bank deposit is made.

We recommend that the Organization also consider sending out annual contribution statements to donors including donors that did not give donations in the current year but have given in prior years. We understand that implementing this procedure is limited by the capabilities of the Organization's donor database. If this procedure is possible, sending annual contribution statements to donors would strengthen the controls surrounding the cash receipts process by giving donors the opportunity to question the completeness of the contribution records for the year. Adding this procedure could require enhancements to your donor database to facilitate such a process, and therefore it should be subjected to your normal cost/benefit tests.

Strengthen Controls over the Disbursements Process

While we have found no reason to question the integrity of your employees and we acknowledge the small size of your staff, we believe the Organization has the opportunity to strengthen its controls over cash disbursements. We suggest that the Organization consider implementing the following recommendations:

- The Administrative Associate posts invoices to the accounting system, prepares checks, and mails checks after they are signed. The Treasurer is currently responsible for reviewing the unopened bank statements, reconciling the bank accounts, and posting all journal entries.

Because of the concentration of duties in the above two individuals, we recommend that the National Pastor receive the unopened bank statements, review the statements and all enclosures for reasonableness, and initial the bank statements signifying his review and approval. This bank statement review should include a careful review of all checks for possible alterations, for unusual

endorsements, and for the reasonableness of payees and amounts. In addition, all bank transfers, debit and credit memos, and other activity clearing on the bank statement should be fully reviewed and understood. The bank statements can then be forwarded to the Treasurer for reconciliation. Once the bank accounts are reconciled, the National Pastor should review the reconciliations to ensure there are no unusual reconciling items and initial the reconciliation signifying his review.

- The Organization does not currently have a policy of canceling invoices and supporting documents at the time invoices are paid. Thus, invoices are susceptible to unintentional duplicate payment or intentional misuse. A simple control against those dangers is to mark invoices with a "Paid" stamp or other indication of payment while they are in the custody of the check preparer or signer. The stamp should provide for notation of check number and date, the general ledger account number where the expense is charged, and initials of the persons who checked the invoice detail and approved it for payment. Such a procedure would add very little time to the bill-paying process but would serve as a reminder to the bill processor of steps to be performed, an indication to the check signer that those steps were done, and prevention against misuse or repayment of the invoice.
- The National Pastor has both the responsibility for approving payment of his Organization credit card and as well as check signing authority. We recommend the Organization consider having another appropriate individual review and approve the National Pastor's credit card statements.
- All disbursement checks require only one authorized signature. We recommend that the Organization consider establishing a disbursement threshold whereby all disbursements over a specific dollar amount would require two signatures. This would provide additional oversight over significant disbursements.
- The Administrative Associate makes copies of all signed disbursement checks prior to them being mailed and maintains them for the Organization's records. We believe this practice is unnecessary due to the Organization's bank providing cancelled checks with bank statements and the Organization retaining check stubs. Therefore, we believe the Organization may be able to eliminate this procedure and still maintain adequate internal controls.

Material Weaknesses

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles

During the audit, it was necessary to propose adjustments to adjust revenues into the appropriate net asset classifications and to record net assets released from donor restrictions. The need to post these adjustments is a result of the Organization tracking its fund balances in total rather than by net asset class in accordance with donor restrictions. Adjustments were also required related to accounts payable, accrued payroll, and contributions payable at the beginning and/or the end of the year. Management reviewed the entries proposed and agreed they were necessary to post.

We recommend that the Organization modify its accounting and financial reporting systems to provide for consistency with generally accepted accounting principles ("GAAP") and with year end audited financial statements. We believe it would be most beneficial for the Organization to prepare monthly financial statements in accordance with GAAP so that the status of the Organization's unrestricted, temporarily restricted, and permanently restricted funds can be properly monitored throughout the course of the year. In addition, preparing the information required for the preparation of GAAP basis financial statements only at year end increases the chance that errors will occur since the data is not subject to ongoing review throughout the year.

On at least an annual basis, the Organization should prepare complete financial statements, including all required note disclosures, in accordance with GAAP. The Organization should ensure that it has this capability, either through in house resources or on a contracted basis.

Adopt a Voucher System

During the audit, it was necessary to post adjustments to record accounts payable at December 31, 2006 and to adjust beginning net assets for accounts payable that should have been recorded at December 31, 2005. Management reviewed the entries proposed and agreed that they were necessary to post. The need to post these adjustments is a result of the Organization recording its expenses on a cash basis rather than on an accrual basis. We recommend the Organization make full use of its accounting system by adopting a voucher system, whereby invoices are entered in the accounts payable module when received rather than when invoices are approved for payment. By doing so, the Organization will improve its controls over unpaid invoices and have a more complete record of its accounts payable at any given time. As well, the Organization's expenses will be recorded using the accrual basis of accounting which is required by GAAP.

OTHER RECOMMENDATIONS FOR YOUR ORGANIZATION

During the course of an audit, we frequently become aware of other matters which are opportunities to strengthen internal controls or improve operating efficiency or

effectiveness. During the course of our 2006 audit, we have developed the following additional recommendations for your consideration.

Formalize Policies Related to Property

During our audit, we noted that the Organization does not have formal capitalization and depreciation policies and only records depreciation at year end. We recommend the Organization consider the following:

- Establish a minimum amount threshold for capitalization of assets, and expense items below the threshold. This will result in a more uniform treatment of property and equipment and also eliminate unnecessary work by the Treasurer in recording and depreciating minor items.
- The useful life of most pieces of office equipment, especially anything electronic, is becoming shorter. For example, a few years ago the useful life of computer hardware was up to five years, but now a system can become obsolete in three years or less. We believe the Organization should review the useful lives that it has been using for fixed asset additions and consider if a shorter life is more realistic going forward given how quickly technology changes.
- Record depreciation during the year in order to provide more accurate financial information for review by management and the Board. If the Organization does not wish to spend the time calculating depreciation each month, the monthly expense can be estimated based on a fraction of the prior year's actual expense, with the estimate being adjusted to actual for the annual financial statements. Such an estimate would be reasonably accurate unless there were major additions or disposals during the year, in which case the estimate could be adjusted to reflect the significant activity.

Track Investment Earnings on Permanent Funds

During our audit, we noted that the balances in the Domingo Rodriguez Scholarship and Ferdinand Garcia investment accounts did not agree with the corresponding net asset balances. We understand these differences to result from certain monies not being transferred from the operating account to the investment accounts on a timely basis. We recommend that the Organization either alter its procedures for transferring monies to the investment accounts or begin to track the difference between the return earned on the monies in the cash account versus in the investment account so the funds can be credited for the proper amount of earnings that they deserve.

Expand the Materials Describing the Domingo Rodriguez Scholarship Fund

During our testing, we noted that the Organization's brochure covering the Domingo Rodriguez Scholarship Fund does not describe the annual fund component. We recommend that the Organization's brochure be revised such that it details the intended

use of annual and permanent fund contributions as well as investment earnings on the permanent fund.

Develop an Accounting Procedures Manual

We noted that the Organization does not have an accounting procedures manual. There may be an assumption that because the Organization's accounting system is relatively simple and the Administrative Associate has direct and easy access to the Treasurer when questions arise, there is no need for a manual. However, written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs.

Develop an Information Technology Disaster Recovery Plan

During our audit, we noted that the Organization does not have a formal contingency plan in the event of a disaster or hardware failure. However, we are aware that the Organization does use a web-based accounting system and has an arrangement with DiscipleData, Inc. for the Organization's network to be backed up daily. While these are good safeguards currently in place, we recommend the Organization develop a formal contingency plan and consider the following:

- Confirm with DiscipleData, Inc. that the Organization's computer files are backed up on a periodic basis.
- Determine if the DiscipleData, Inc. back up tapes are maintained at an off-site storage location and how these tapes can be accessed in case of an emergency.
- Identify a backup location (name and telephone number) with similar or compatible equipment for emergency processing.
- Determine responsibilities of various personnel in an emergency situation.
- Determine priority of critical applications and reporting requirements during the emergency period.
- Identify the procedures required to validate account balances once the system is operating again.
- Consider important paper documents (i.e. insurance policies) that may be need in an emergency situation.

Adopt a Conflicts of Interest Policy

The primary purpose of a Conflicts of Interest Policy is to insure that the Board and key management can make decisions in an objective manner without undue influence by persons with a private interest and to insure appropriate disclosure of any transactions between organizations and disqualified persons.

We believe that your Organization should consider adopting and implementing a Conflicts of Interest Policy and we suggest that you work with counsel to formulate an appropriate policy to be adopted and utilized in the future.

We believe the following are some of the factors that should be considered for inclusion in the content of a Conflicts of Interest Policy:

- Definition of an Interested Person. An Interested Person is considered to be any person who was, at any time during the 5-year period ending on the date of a financial transaction, in a position to exercise substantial authority over the affairs of the Organization. For example, board member or member of a committee with board-delegated powers.
- Definition of a financial interest that would be needed to be disclosed. For example “any transaction or arrangement with an ‘interested person’.”
- A requirement for disclosure of any financial interest and all material facts related to the interest.
- Procedures to determine whether the financial interest may result in a conflict of interest.
- Procedures when a conflict is found. Examples given are:
 - To require the interested person leave the meeting during the discussion of, and the vote on, the transaction or arrangement that results in a conflict of interest.
 - Appointing a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.
 - Determining, by majority vote of the disinterested members present, that the transaction or arrangement is in the best interest of the Organization.
 - Disciplinary and corrective action to be taken when the policy is violated. For example, what steps will be taken if a failure to disclose is discovered.

- Procedures for adequate recordkeeping. Documentation of all facts and actions taken. If a vote is taken on a transaction, the names of all persons associated with the vote should be kept.
- Communication of the policy to all interested persons. Each person should sign an annual statement that he/she received a copy of the policy, has read and understands the policy, agrees to comply with the policy, understands that the policy applies to all committees and subcommittees having board-delegated powers, and understands that the Organization is an organization that must engage primarily in activities that accomplish its exempt purpose.
- Procedures for periodic reviews of activities to ensure the Organization is operating in a manner consistent with accomplishing its exempt purpose and that operations do not result in private inurement or impermissible benefit to private interests.

Consider Holding More Frequent and Formal Board Meetings

We understand that the Organization's Board meets formally once a year and informally at other times during the year. While it may be difficult to arrange board meetings given the location of your board members, we recommend that the Organization consider holding board meetings at least quarterly either in person or via teleconference to review and discuss a comparison of the Organization's actual financial results to budgeted amounts. Timely communication of financial results is critical to the success of any organization.

CURRENT ISSUES AFFECTING NOT-FOR-PROFIT ORGANIZATIONS

This section of the letter is not required by professional standards. However, we want to inform you about issues of importance to the not-for-profit community in order to assist you in continuing to plan proactively for the future of the Organization. The purpose of this section of this letter is to inform you as to the status of certain emerging developments which will affect not-for-profit organizations.

IRS Releases Good Governance Practices Guidelines for Not-For-Profits

In early 2007, the Internal Revenue Service ("IRS") issued a set of guidelines designed to help ensure that members of a 501(c)(3) organization's governing board are familiar with and understand their roles and responsibilities and actively promote good governance practices within the organization. While compliance with these guidelines is not required for tax exempt status, the IRS indicates that adoption of some of the guidelines as best practices will aid an organization's success in pursuing exempt status and earning public support.

The guidelines address nine specific issues. The following is a brief summary of each recommendation:

Mission Statements: Adopt a clearly articulated statement that shows why the organization exists, what it hopes to accomplish, and what activities it will undertake, where, and for whom.

Codes of Ethics: Adopt and regularly evaluate a code of ethics and whistleblower policies that communicate a strong culture of legal compliance and ethical integrity.

Due Diligence: Ensure that policies are in place to help directors meet their duty of care, and ensure that directors are fully informed about the organization's activities, goals, and financial status.

Duty of Loyalty: Adopt and regularly evaluate a conflict of interest policy, which requires directors and staff to act solely in the interests of the organization. Directors and staff should be required to disclose annually in writing any known financial interest that the individual, or a member of the individual's family, has in any business entity that transacts business with the organization.

Transparency: Maintain full and accurate disclosure of the organization's mission, activities, and financial performance, and make this information available to the public on the organization's website and/or by request.

Fundraising Policies: Adopt and monitor policies to ensure that solicitation complies with the law and that materials are accurate, truthful, and candid.

Financial Audits: The governing board should approve annual budgets and regularly review current financial statements, as well as having an annual audit conducted by an independent auditor.

Compensation Practices: Compensation for services performed should be reasonable. Charities may pay reasonable compensation for services provided by officers and staff. In determining reasonable compensation, a charity may wish to rely on the rebuttable presumption test of IRC Section 4958 and Treasury Regulation Section 53.4958-6.

Document Retention Practices: Adopt a written policy establishing standards for the integrity, retention, and destruction of paper and electronic files. The policy should cover backup procedures, archiving of documents, and regular check-ups of the reliability of the system.

Principles for Effective Practice – Draft Recommendations from the Panel on the Nonprofit Sector

The Panel on the Nonprofit Sector is an independent effort by charities and foundations to ensure that the nonprofit community remains a vibrant and healthy part of American society. Formed by the Independent Sector in October 2004 at the encouragement of the U.S. Senate Finance Committee, the Panel in 2005 and 2006 provided

recommendations for Congress and the not-for-profit sector to improve the oversight and governance of charitable organizations.

In early 2007, the Panel's Advisory Committee on Self-Regulation developed initial draft principles for effective practice after examining over 50 systems of self-regulation and accreditation that monitor charitable organizations. After receiving public comments on that initial draft, it produced a second set of draft principles. The Advisory Committee now invites public comment on its second draft of 29 principles and the staff drafts of two additional principles, which are arranged in the following five categories:

- Facilitating Legal Compliance and Public Disclosure - responsibilities and practices, such as implementing conflict of interest and whistleblower policies, that will assist charitable organizations in complying with their legal obligations.
- Effective Governance - policies and procedures a board of directors should implement to fulfill its oversight and governance responsibilities effectively.
- Strong Financial Oversight - policies and procedures an organization should follow to ensure wise stewardship of charitable resources.
- Responsible Fundraising - policies and procedures organizations that solicit funds from the public should follow to build donor support and confidence.
- Staff Drafts of Additional Principles – principles regarding risk management practices and adoption of a code of ethics.

We are sharing this information with you to illustrate the consistency of focus between the IRS guidelines and those of the Panel on the Nonprofit Sector. Effective not-for-profit governance, accountability and compliance are receiving unprecedented focus at the present time.

IRS Releases the Redesigned Form 990

On December 20, 2007, the IRS released the 2008 Form 990, *Return of Organization Exempt from Income Tax*, the informational form filed by public charities and other tax-exempt organizations. Organizations will begin using the new Form 990 for tax years beginning in 2008 (returns filed in 2009). While we understand that your Organization is not required to file a Form 990, we want to make you aware of some of the new issues being addressed in the form so that you are aware of the direction of the IRS as it relates to not-for-profit organizations.

The 2008 Form 990 is based on the Form 990 Discussion Draft that was released to the public for comment on June 14, 2007. The IRS received approximately 700 emails and letters totaling approximately 3,000 pages of written comments during the draft's 90-day comment period. The new form incorporates many recommendations made in the public comments.

The current Form 990 consists of a nine-page core accompanied by Schedules A and B, in addition to thirty-six possible attachments. The 2008 Form 990 consists of an eleven-page core form that must be completed by each Form 990 filer. In addition, the form's sixteen schedules are designed to require reporting of information only from those organizations that conduct particular activities.

The form moves key information to the front page, creating a revealing snapshot of the Organization and its finances. Page one disclosures include a description of the organization's mission or most significant activities, and a two-year summary of revenues and expenses.

Areas of added emphasis include questions related to governance, management, and financial reporting. Examples of some new questions that will have to be answered on the 2008 Form 990 include:

- Does the Organization have a written conflict of interest policy? If so, are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts? Does the organization regularly and consistently monitor and enforce compliance with the policy? If yes, describe how this is done.
- For the CEO, Executive Director, other officers or key employees, did the process for determining compensation include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?
- Does the Organization have a written whistleblower policy?
- Does the Organization have a written document retention and destruction policy?
- Was a copy of the Form 990 provided to the Organization's governing body before it was filed?
- Were the Organization's financial statements compiled, reviewed, or audited by an independent accountant? If so, 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?
- The Organization must identify how it makes its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection.
- The Organization must describe whether (and if so, how) it makes its governing documents, conflict of interest policy, and financial statements available to the public.

The IRS expects to release draft instructions for the new form early in 2008.

The IRS also announced a graduated transition period for smaller organizations. These organizations will be allowed to file the Form 990-EZ instead of the Form 990. For the 2008 tax year (returns filed in 2009), organizations with gross receipts over \$1.0 million or total assets over \$2.5 million will be required to file the Form 990. For the 2009 tax year (returns filed in 2010), organizations with gross receipts over \$500,000 or total assets over \$1.25 million will be required to file the Form 990. The filing thresholds will be set permanently at \$200,000 gross receipts and \$500,000 total assets beginning with the 2010 tax year. Also, starting with the 2010 tax year, the IRS will increase the filing threshold for organizations required to file Form 990-N (the e-postcard) from \$25,000 to \$50,000.

“This phase-in process will allow organizations to become familiar with the new Form 990,” Lerner said.

The IRS also announced a phase-in of the form’s new hospital and tax exempt bond schedules. Certain identifying information will be required for the 2008 tax year, with completion of the entire schedules required for the 2009 tax year. In response to the nonprofit sector’s safety and security concerns regarding disclosure of certain foreign workers and volunteers, the IRS revised the form to permit reporting of foreign activities by region, rather than by country, until other safeguards may be implemented to protect the privacy interests of such persons.

“We believe the transition relief we are providing is appropriate and meaningful, and will ease the concerns raised by commenters,” said Lerner.

IRS Report on Exempt Organizations Executive Compensation

In March 2007, the Internal Revenue Service released findings from the 2004 Executive Compensation Compliance Initiative conducted by the Exempt Organizations Office of the Tax Exempt and Government Entities Division. Part I of the project included compliance check letters sent to 1,223 organizations, while Part II of the project involved examinations of 782 organizations. A partial summary of findings from the project follows:

- The compliance checks uncovered significant reporting errors and omissions in specific areas, particularly excess benefit transactions and transactions with disqualified persons. Over 30% of compliance recipients amended their Forms 990, while 15% of the compliance check recipients were selected for examination.
- Examinations completed to date do not evidence widespread concerns other than reporting.
- Where problems were found, significant dollars of excise taxes (aggregating \$21 million) are being assessed.
- High compensation amounts were found in many cases, but were generally substantiated based on appropriate comparability data.
- Only 51% of organizations attempted to satisfy all three prongs to establish the rebuttable presumption of reasonableness of compensation for disqualified persons

(approval by independent governing body, reliance on comparable data, and adequate documentation).

- Changes in the Form 990 series are necessary to reduce errors in reporting and to enable the IRS to identify compensation issues.

IRS Issues Regulations on New E-Postcard Filing Requirement for Small Exempt Organizations

The IRS issued temporary regulations November 14, 2007 for the implementation of a new "e-postcard" filing requirement for small tax-exempt organizations. The Pension Protection Act of 2006 ("PPA") included a provision requiring that small tax-exempt organizations (generally organizations with annual gross income that is not normally in excess of \$25,000) file an annual notice with the IRS. Prior to the enactment of the PPA, many such smaller exempt organizations were not required to file a Form 990 or any other document annually with the IRS. The new regulations, effective November 15, 2007 and applicable to tax years starting January 1, 2007 or later, describe the information that needs to be included in the new electronic postcard filing (called Form 990-N):

- The legal name of the organization;
- Any number under which the organization operates or does business;
- The organization's mailing address and Internet Web site address (if any);
- Taxpayer identification number;
- Name and address of a principal officer; and
- Evidence of the continuing basis for the organization being exempt from filing a Form 990 or Form 990-EZ.

Note that the PPA provides that the failure to file the Form 990-N (or the Form 990 or Form 990-EZ if one is required) for three straight years will result in automatic revocation of tax-exempt status.

The new regulations also set forth limited exceptions to the e-postcard filing requirements, provide that the notice will be due on or before the 15th day of the fifth calendar month following the close of a tax year, and address other matters.

The IRS is still developing the electronic filing system for the new Form 990-N.

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Central Pastoral Office for Hispanic Ministries
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This communication is intended solely for the information and use of management, the Board of Directors and its relevant committees, and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate this opportunity to be of service and extend our thanks to everyone at the Organization for their cooperation and assistance. We would be pleased to discuss any of the above matters with you at your convenience.

Very truly yours,

Blue & Co., LLC