Here’s how conscientious board members handle Form 990

It has been said that democracy is the worst form of government except all the others that have been tried.”
—Winston Churchill

Many of you complied with the IRS deadline of April 15 for filing of your individual income tax return. Non-profits with a Dec. 31 year-end must file a Form 990 no later than May 15. Fortunately, both individuals and tax-exempt organizations can file for an automatic extension of the deadline.

A recent discussion involved this question on the form: “Has the organization provided a complete copy of the Form 990 to all members of its governing body before filing the form?” The IRS then asks filers to describe in Schedule O the process, if any, used by the organization to review the Form 990.

Since the 2008 revisions in the form, those two questions have puzzled many non-profit organizations. Now that the IRS has five years of filings for the revised Form 990, we are seeing an increase in audit activity in this area.

It will be most interesting to see the results of IRS audits and related recommendations in this specific area of Form 990 board review. Most importantly, you must maintain documentation each year to support and validate your procedure in this area.

For the record, there is no statutory or regulatory requirement for a non-profit board or its designated committees to review Form 990 before filing. The IRS objective remains clear, however. There should be a policy to increase board members’ awareness of the extensive information reported on the form.

Every non-profit should develop its own policy. My recommendation: The board’s chairman or chairwoman, its officers, its audit committee or even all three should review Form 990 before it is filed, and a copy of the completed form should be made available to all board members electronically.

The policy adopted should then be described on Schedule O of the Form 990, so the IRS will be informed that board members are properly engaged in reviewing the information.

But, you may ask, what constitutes an effective and thorough review of the Form 990 by the volunteer board members?

First and foremost, board members must understand that the focus of the revised Form 990 is greater scrutiny and reporting requirements for: executive compensation and benefits; conflict-of-interest disclosures and policies; transactions with related parties or disqualified persons; board governance and oversight policies; compliance with government reporting requirements (filing 1099 forms, W-2 forms, etc.); adequacy of the organization’s internal controls; supplementary disclosure on Schedules A through R (a total of 16 schedules, but most non-profits will have to file fewer than half).

If board members keep these areas of scrutiny in mind, their review of Form 990 will be more productive and efficient. The remainder of this column is a step-by-step guide for that review:

- If your Form 990 has been completed by hand instead of with software, ask why. Ninety percent of the forms should be completed electronically.
- Look at Parts I and II and the signature block on the first page. If you see anything wrong, return the form to the preparer and ask that it be reviewed one more time for errors and omissions.
- Part III: Read the description of programs and services to assure yourself that it is accurate and thorough. This is the definitive statement of why your organization should qualify as a public charity.
- Part IV: A checklist of 38 questions determines which supplementary schedules are required for your organization. Review all yes answers to determine they are consistent with what you would expect. Check a sampling of the no answers as well.
- Part V: Read the 12 questions that examine whether the organization has complied with a variety of reporting requirements. If any answer does not make sense or ring true, seek clarification.
- Part VI: For the first 16 questions about the governing body, management and policies, check the accuracy of any no answer. The next four questions are on public disclosure of the Form 990 and other documents.
- Part VII: Review this section on compensation of officers, directors, key employees and contractors for appropriate names. Check the reasonableness of the salary and benefit information. Ask if it includes compensation from all entities, and look at Schedule J for more information. This is the one area where the IRS has seen numerous errors and omissions.
- Part VIII: This statement of revenue comes from the audited financial statements and should not require detailed review.
- Part IX: The statement of functional expenses also comes from the audited financial statements and should not require detailed review. But it is good practice to calculate management and general expenses as a percentage of the total. If administrative costs exceed 15 percent for an organization with less than $7 million in total expenses, verify that allocations have been made correctly. For larger organizations, administrative and general expenses of 10 to 15 percent are usually within the reasonable range.
- Part X: Balance sheet information comes directly from the audited financials. Make sure total assets equal total liabilities plus fund balance at both the beginning and the end of the year.
- Part XI: Three questions on financial reporting are easily reviewed.

That completes your review of the main form, but you should examine any of those 16 supplementary schedules. Besides Schedule J on compensation, mentioned
above, here are the most commonly filed schedules:

- **Schedule A**: Make sure your organization is described accurately and has made a complete report of information regarding public sources of support.
- **Schedule B**: Remember that names and addresses of your contributors may be redacted from the public disclosure copy.
- **Schedule D**: Should not need review.
- **Schedule G**: Investigate unusual results for each fundraising event.
- **Schedule O**: This schedule contains expanded information on matters addressed by the core form and some schedules. Check the disclosures for completeness and accuracy.
- **Schedule R**: This form has the most complicated rules for what information must be reported. To the extent you must report any transactions with “disqualified persons,” I strongly recommend that the individuals involved be contacted so they are aware of the reporting requirements.

Gerald J. Archibald, a CPA, is a partner in charge of management advisory services at the Bonadio Group and is known for expertise in non-profit and tax-exempt accounting, management and governance. He can be reached at (585) 381-1000 or garchibald@bonadio.com. His articles also are posted at www.bonadio.com/news-events/articles.