

Six Steps for Board Review of the New Form 990

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Federal tax law doesn't require boards of directors to review the Form 990 filed with the Internal Revenue Service (IRS) each year. However, having the entire board review the filing is considered a best practice and the new revised Form 990 inquires into the process. Many organizations will present the form to all of its board members for review for the first time this year. Even the finance committee will be looking at an entirely new form for tax year 2008. Below are some helpful hints, broken down into six steps, for reviewing the new form.

Step 1: The Initial Overview. When first approaching the Form 990, a high-level overview provides a sense for what the organization is all about and identifies areas of the form that warrant deeper review.

Are all parts fully completed? If any part of the return or attached schedules is left blank, do you know why?

- Is the return neat? A sloppy return with misspellings and typographical errors may create the impression that it was ill-prepared and that the data is suspect.

Step 2: Programs. The next part of a high-level overview is Part III (Statement of Program Service Accomplishments).

- Is the mission statement correct? Does it match what was reported on Part I (Summary), Line 1 and your understanding of the organization's mission?
- Are the program descriptions a good summary of the organization's three largest programs?
- Is the organization presented in the best light here?
- Have accomplishments during the year been specifically quantified? This is the place where an organization can advertise its charitable accomplishments to the general public, donors and potential donors.
- Are there any new programs and if so, are they described in Schedule O (Supplemental Information to Form 990)?
- Were there any other significant changes in the conduct of any programs or discontinuation of any program and if so, has this been described in Schedule O?
- Do the expenses, grants, and revenue amounts associated with each program reported at the top of each section match your understanding of the organization's operations?
- Do the total program service expenses equal the amount reported on Part IX (Statement of Functional Expenses), Line 25, column (B)?
- In Part IX, is the ratio of program service to management and general to fundraising reasonable based on your understanding of the how the organization uses its resources?

Step 3: Required Schedules. Look at the Part IV Checklist of Required Schedules.

- Are all the questions answered correctly?
- For any question answered yes, is the appropriate schedule included with the return?
- Is Schedule B (Schedule of Contributors) attached? If not, do you understand why?
- If there is a Schedule R (Related Organizations and Unrelated Partnerships), does it accurately reflect any related organizations or unrelated partnerships through which the organization conducted more than five percent of its activities?
- If there is a Schedule L (Transactions with Interested Persons), does it reflect your understanding of any transactions with interested persons?
- Review all the other schedules that are attached for accuracy and that all required parts are completed. Does the information in the various statements agree with your understanding of the organization's activity for the tax year?

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Step 4: Part VII, Compensation.

- Are all the officers, directors, trustees, and key employees listed in Part VII?
- Are the hours of each individual reasonably accurate?
- Have appropriate boxes in column C been checked?
- Does their compensation match your understanding of what it should be?
- Are reasonable estimates of other compensation from the organization or related organizations reported in column F?
- Does line 2 reflect an accurate number of individuals receiving more than \$100,000 of compensation?
- Are the answers to lines 3-5 correct?
- If Schedule J is required, has it been completed?
- Is Section B completed for independent contractors?
- Have investment managers or professional fundraisers been included in Section B? These contractors are frequently overlooked because their compensation is often reported as a reduction of the income they generate.
- Is total compensation in Part IX, lines 6 – 9 reasonable?

Step 5: Parts V and VI, Tax Compliance and Governance. Read all the questions and answers in Part V (Statements Regarding Other IRS Filings and Tax Compliance) and VI (Governance, Management, and Disclosure). If you have any questions, ask your tax advisor, CFO or finance committee to explain.

- To the best of your knowledge, are all the questions answered correctly?
- Where the form asks for additional explanation in Schedule O, has an adequate explanation been provided?

Step 6: The Financial Data. Page 1, Part I contains an overview of revenue, expense, assets and liabilities as well as some other detail. Review this for reasonableness and accuracy.

Does the number of individuals reported on lines 3-6 match your understanding?

Does the gross and net amount of unrelated business income reported on lines 7a and b agree with your understanding of the taxable income the organization generated during the tax year? Does it agree with the Form 990-T for the tax year?

Compare the amounts reported on lines 8-22 with the prior year's tax return.

- Do the amounts agree with your understanding of the organization's financial activity?
- If there is a net surplus or deficit does this match your understanding of the organization's performance for the year?

You may want to have your tax preparer or advisor present the Form 990 to the board. Remember, the Form 990 is open to public inspection for three years and is available on the Web at www.guidestar.com, where donors, potential donors, the general public and the media may view it. The objectives of the Form 990 are to demonstrate that the organization is fulfilling its tax-exempt purpose, that financial resources are used to further these purposes and to ensure accountability and transparency of activities, governance and relationships. Review the return with an eye toward what you would want the general public to see.