



Six Steps for Board Review of the New Form 990



Brought to you by:

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Boards of Directors that haven't as yet required board review of the Form 990 filed with the IRS each year may be reconsidering this policy. While Federal tax law doesn't *require* such a review, it is regarded as a best practice and the new revised Form 990 inquires into the process the organization follows for a review by the entire board. So, many organizations for the first time will be presenting the form to all of its board members for review. Even the finance committee will be looking at an entirely new form. Thus, this article presents some helpful hints for reviewing the new form.

There are many approaches to reviewing the form. Some may prefer to dive directly into the detail financial numbers, others may start at page one and plow through in page order, while others might prefer an initially broader approach. None is better than the other and depends on the preference of the reviewer. The following approach is intended for those that prefer a broad overview of the return and is presented in the form of 6 review steps.

1. **The Initial Overview:** When first approaching the Form 990, a high level overview will provide a sense for what the organization is all about and help determine areas of the form that warrant deeper review. Are all parts fully completed? Are all the questions in Parts IV, V, and VI answered? 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.

2. **Programs:** The next part of a high level overview would be to look at Part III. Is the mission statement correct? Does it match what was reported on Part I, 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 their charitable accomplishments to the general public, donors, and potential donors. Are there any new programs and if so, are they described in Schedule O? 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, 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?

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 attached? If not, do you understand why?

If there is a Schedule R, 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, 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?

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?

5. **Parts V and VI, Tax Compliance and Governance:** Read all the questions and answers in Part V and VI. If there are any questions that you don't understand, ask your tax advisor, CFO, or finance committee to explain it. 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 in Schedule O?

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 organizations 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 the Form 990 presented to the board by the tax preparer or advisor. Remember, the Form 990 is open to public inspection for three years and is available on the web through www.guidestar.com. It may be looked at by donors, potential donors, the general public, and the media. The objective of the Form 990 is 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.

We would be happy to assist you with any of your questions. Please call us at 941-365-4617 or email Rob Lane at rlane@kgrp.com or Patricia Entsminger at pentsminger@kgrp.com.

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