

IRS Form 990 is Revealing

Bob Harris, CAE

Associations and most nonprofits file Form 990. It is submitted annually to the Internal Revenue Service (IRS.) It averages 25 pages. A quick read reveals much about an organization.

Responsibility for preparing and filing an accurate form rests with the filer, often a paid accountant and the chief staff person and board of directors. Executives want to be fully versed in the form to maintain exempt status and accuracy.

Dan Holloway, CPA at Sanders, Holloway and Ryan in Tallahassee explains that in preparing Form 990 there is a primary interest in the financial reporting requirements. This involves making sure all of the amounts included on the return are complete, accurate and tie back to the organizations financial statements.

“The narrative and non-financial information sections are not so important to the CPA so there is not as much concern with making sure these are complete and up-to-date. That is where the client must take responsibility to review the return and inform the CPA when such items need revision. Because the public may view the 990 to evaluate the organization it is important that they get an accurate and complete understanding,” says Holloway.

Mission Aware

The front page of the form provides space to describe the organization’s mission. The public should know why the organization is exempt from paying federal income tax. I’ve seen forms where the description looks nothing like the mission statement being promoted.

Worse may be returns submitted with the word “NONE” for the mission statement. The front was signed by an officer or staff before its submission.

Board Review

Form 990 asks if the governing body has reviewed the document before submission to the IRS. It’s a yes or no question.

More often than not the question is marked “Yes.” But ask a board if they have seen the form and they frequently reply, “No.”

Possibly they don't recall the process for review or understand the importance of the information. Some executive directors have said, "I didn't know the board should see it," or "I gave it to the officers but not the board." An earlier question on the form asks how many are on the governing body, that's the group responsible for its review.

Be cautious about a motion to "approve" the form. The board hired a professional to complete the form and it is presented for information purposes only. Record in the minutes that the board reviewed or had access to the form.

Conflicts Policy

Several questions address conflicts of interest. The first, "Did the organization have a written conflict of interest policy?" The form has space to record the practices used regarding disclosures. Most nonprofits maintain a compendium of policies applicable in the organization.

A second question asks, "Did the organization regularly and consistently monitor and enforce compliance with the policy?" As a result many organizations include a footnote on agendas to remind the meeting chair to ask, "Does anybody have a conflict with anything on today's agenda?"

Amended Documents

The form asks if amendments were made to the governing documents. If the answer is affirmative, the IRS should be made aware of them.

Bylaws are the most likely governing document to be amended. An example would be a change in the mission or governance. There is a method for reporting the changes on the form.

Board of Directors

The form lists the members of the governing body and some staff. The information offers insights into who is accountable for the organization. Such a list might be used by a third party to make contact with association leaders.

A listing of the board of directors also communicates to the leadership that there is public awareness. Because an organization's filing is available for public inspection, board members should take positive action to respond to requests. Board orientation is a good time to advise which association records are considered public and which are not.

Chapters

The form inquires about the relationship of chapters. The first question asks if the filing is a group return for subordinates. Another query, “Did the organization have local chapters, branches or affiliates?” Followed by, “Did the organization have written policies and procedures governing the activities of affiliates and branches to ensure their operations are consistent with the organization’s exempt purposes?”

The rationale for the question about chapters is that the “parent” is required to have general supervision or control over its subordinates as a condition of the group exemption. In consulting with associations I sometimes see a listing of chapters on the organization’s website with information about membership and other aspects, but Form 990 reporting there are no chapters.

Review the Form

Reviewing the form allows an executive to check it for accuracy. There may be information to which the accountant filer was not updated. In the past decade there has been significant change to Form 990.

One of the best resources, in addition to one’s CPA, is the free IRS publication, “2017 Instructions for Form 990 Return of Organization Exempt From Income Tax.”
<https://www.irs.gov/pub/irs-pdf/i990.pdf>

Be sure to rely on accounting and legal professionals.

#

Note: Bob Harris, CAE, provides free governance tips and templates at www.nonprofitcenter.com.