



New Uses of IRS Form 990: To Improve Board Involvement

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Larger nonprofit organizations have now navigated the second year of preparing the expanded IRS Form 990. Next year will be the last of a three year phase-in of the new form, and will subject even more nonprofit organizations to the heightened reporting requirements. Organizations with just \$200,000 of gross annual receipts (or assets of \$500,000 or more) will expend more staff time completing the expanded disclosure report in 2010.

Our local daily newspaper found the requirement for more disclosure of employee compensation as newsworthy. The greater impact for most institutions will be felt by the increased focus on the functions of your governing board. The current 990 is 11 pages long, plus 16 accompanying schedules with newly required disclosure regarding board independence and management oversight. The IRS has increased expectations for transparency and accountability of each governing board.

Some experts in the nonprofit field have cried foul, questioning the IRS' authority to create and enforce governance standards for nonprofit organizations. The more important issue is revealed by the recent comments of the IRS commissioner of Tax Exempt & Government Entities that the Service will use the new 990 as a tool to select organizations for audit. As any individual or corporate taxpayer will attest, receiving an IRS inquiry is unwelcome news and always leads to diverting considerable time and attention from your daily work.

There are now 1.9 million exempt organizations in the United States and another 200 are approved by the IRS each day. The sheer size and continuing growth of the third sector is undeniable and the increased focus of new regulation and scrutiny by our federal government is not going to subside. The public scrutiny of nonprofits also moved into our new Federal Healthcare Legislation. Nonprofit hospitals that hope to maintain their tax-exempt status must now conduct community needs assessments and demonstrate an implementation strategy to meet those needs.

Furthermore, the growth of new charity watchdogs and web sites such as GuideStar assures that more people will be viewing your 990 than just the IRS. Because of the detailed information disclosed, the 990 is quickly becoming an organization's annual report to constituents and contributors, whether you know it or not.

We must all acknowledge the increased difficulty of full compliance with IRS rules and the need to preserve the organization's exempt status. In our view, the new 990 defines a new minimum standard for donors to evaluate nonprofit organizations. It is thus incumbent upon chief development officers to use these new standards and use them to the organization's advantage. Recall the old adage: when given lemons make lemonade.

We think this is now an opportunity to further demonstrate the first essential element of successful fund-raising: **A solid organization**. It is axiomatic that successful organizations raise more money, because donors are confident that their philanthropic investment will be used to its greatest effect. Successful organizations provide a needed service with quality and reliability, are led by competent and respected professionals and volunteers, and are financially sound and well managed.

The preparation of your organization's 990 should no longer be the sole responsibility of your accounting firm or finance committee. Development officers should bring industry "best practices" for board governance to the forefront of your organization's year-long discussions and activities, and do so in a positive and constructive manner.

As the IRS enforces compliance with the new Form 990, it is also committed to educate the nonprofit sector as well. The IRS website www.stayexempt.org provides training for nonprofits as well as links to other resources.

The Independent Sector and BoardSource have published and widely disseminated **The Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations**.

A companion workbook is also available for free download. These tools were developed by the Panel on the Nonprofit Sector (convened in 2004) at the encouragement of the leaders of the U.S. Senate Finance Committee. The workbook can be found at www.independentsector.org, and can be employed by development officers to lead the charge.

When a nonprofit organization demonstrates good governance practices, and has the proper controls in place, the entire financial and fund-raising apparatus will benefit in the long run.