Form 990
IN'2K
The Nonprofit Accountability Collaborative
Local Efforts for National Results
The Form 990 in 2000 Project

Form 990 Nonprofit Accountability Collaboratives
“NACs”

Cosponsored by:

INDEPENDENT SECTOR

National Center for Charitable Statistics,
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NAC Activities are Headquartered at NSFRE

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National Results!
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Introduction

As of June 8, 1999, Internal Revenue Service regulations require all 501(c)(3) organizations to provide a copy of their Form 990 to anyone upon request. These regulations mean that anyone – including major donors and members of the media – now has immediate access to the salary of a nonprofit’s chief executive officer and other employees; how much it spent on fund raising; the names of board members and how much, if anything, they are paid; and other key financial data.

Until now the Form 990 remained a somewhat private document; something shared between the IRS and the charitable organization. While past regulations required the disclosure of Form 990 information there was never a suitable medium to realize mass disclosure until the development of the Internet. Now with the advent of the Internet and increased disclosure legislation the Form 990 is no longer a reporting instrument, but a public information piece.

This information piece will be used by both donors and legislators alike to allocate resources to the nonprofit sector. However, a number of recent studies indicate that many mistakes (both major and minor) are made on a vast majority of Forms 990. While more disclosure increases the sector’s accountability, inaccurate information diminishes trust and leads to misinformed choices by donors, researchers and legislators. Making the Form 990 widely available to everyone and ensuring that the information is as accurate and as timely as possible are in the best interests of the entire sector.

The amount of effort in preparing any report is a direct reflection for the concern the preparer has for the recipient. Today’s recipient is the world. As professionals within the industry it is incumbent upon us to produce the highest quality work so the nonprofit sector will be favorably viewed by those we support and those that support us.

That is precisely the goal of the Form 990 Accountability Project. By bringing together everyone involved with the Form 990 – the nonprofits who file it, the accountants who prepare it, the regulators who monitor it, and the public who uses it -- the Project will increase awareness and understanding of the Form 990 reporting process and find new ways to improve it.
How To Use This Kit

The Form 990 Project Kit is designed to spur the development of state and local collaboratives – a group of representatives from the nonprofit sector, accounting profession, regulatory agencies and other interested parties – to discuss issues related to Form 990 reporting. These collaboratives will be known as NACs: Nonprofit Accountability Collaboratives.

The first fifteen pages of the kit discuss the steps needed to form a NAC and suggests various activities and issues that each NAC can tackle. If you are interested in helping to form a NAC, read closely the sections on “Setting Up a NAC,” “Working With the Project Office,” and “What Should a Local NAC Do?” Those components can help guide your initial work and will probably spark a few ideas of your own.

Much of the rest of the kit is background information: articles, hand-outs, fact sheets, lists of important websites, and other materials that illustrate why accurate Form 990 reporting is so critical to the nonprofit sector. NACs are free to use this information in any way they deem appropriate.

There is no right or wrong way to go about forming a NAC and accomplishing the goals of the project. The information presented here are guidelines and suggestions. The important point is that the message of the project is getting out!

This kit is merely a starting point. The Project Office will continue to supply NACs with more information in the form of newsletters and other materials. In return, NACs should report to the Project Office on their activities and any comments or feedback that they receive (NACs can use the Feedback Form included with this kit.). The Project Office encourages NACs to be bold, creative and innovative, and stands ready to help NACs whenever necessary.

The disk that came attached to this publication is a copy of this publication. Please use it to make extra copies, or use it to cut and paste information for handouts and articles. The magazine articles provided with this publication and disk are intended to be used solely for the not-for-profit promotion of the Form 990 project. Any other use may constitute copyright infringement. All other rights reserved ©, NSFRE and others 1999.
The Form 990 Accountability Vision:

All applicable nonprofits understand and prepare a complete, accurate, consistent and timely Form 990 that can be used as an effective research and accountability tool by regulators, donors, legislators, the nonprofit sector and the general public.

To achieve this vision, the Form 990 Accountability Project has the following goals:

1. Increase nonprofits’ understanding and compliance with IRS regulations regarding Form 990 disclosure.

2. Improve the quality of information that nonprofits report in their Forms 990.

3. Inform the public about the Form 990 and its useful information.

The primary method of accomplishing these goals will be through the creation of local and regional Nonprofit Accountability Collaboratives (NACs). A “NAC” is simply a term for a group of representatives from the nonprofit sector, the accounting profession, state charity regulators, and other interested organizations meeting to address issues related to the Form 990. The Form 990 Accountability Project aims to have at least one NAC in every state.

The activities of each NAC fall under two main categories: education and recommendations. NACs will develop activities for nonprofits, the accounting profession and the public that will lead to greater understanding of the Form 990, its importance, and the new regulations regarding disclosure. Based on these activities, NACs will then make recommendations on how to improve the quality of Form 990 reporting. These recommendations will be used to create a national report on Form 990 reporting.

Assisting the NACs at every step will be the Form 990 Project Office, serving as a clearinghouse of information. The Project Office can provide a wealth of data and ideas on activities and will provide updates and reports on what other NACs are doing. The Project Office will also have a website from which NACs can get information instantly. The Project Office is located at the headquarters of the National Society of Fund Raising Executives in Alexandria, Virginia (800/666-3863, ext. 490).
Setting Up a NAC

1. **Read the Quality Form 990 Resolution (in Appendix I).** Use the resolution as your blueprint; it contains twelve recommendations that can drive the work of your local NAC. The resolution has been endorsed by many national organizations, and will give you a few ideas for activities that your NAC can develop.

2. **Contact the NAC Project Office for a list of organizations and contacts in your area.** Councils of social agencies, United Ways, not-for-profit associations, regional associations of grant makers, and community foundations are just some of the groups that might have members in your area willing to participate. The list from the Project Office will be a starting point, and there may be local organizations that you will want to add. If a NAC has already been formed in your area, or if others from your community have already contacted the Project Office about starting a NAC, you will be given the appropriate contact information.

3. **Arrange a meeting with local contacts.** Convening a smaller group to discuss the overall project of the NAC may be an effective first step. This group may eventually turn into the “board” or steering group for the NAC. The group should choose a name for the NAC and a chair or president. General goals and projects should be introduced at this meeting.

4. **Hold the first NAC meeting, inviting all interested not-for-profits, accounting firms, accountability groups, and others.** This meeting would introduce the background and goals of the Form 990 Project. The steering group can give the presentation, propose different projects, and ask for volunteers. Creating subcommittees (Not-for-profit Education, Public Education, Technology) to handle different issues can be very effective:

5. **Begin projects and commit to meeting at least twice a year.** Report activities regularly to the Project Office, which will then share your successes and questions with other NACs working on the same issues in other areas. Your NAC can also get ideas from other collaboratives in different areas of the country.

6. **Contact the NAC Project Office about sample material for various activities.** We will be developing them based on your needs. Material will also be available on the Form 990 Accountability Project website (www.qual990.org).

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**National Results!**
What Should a Local NAC Do?

As you begin thinking about activities, keep in mind the main goals: improving the quality of reporting by nonprofits on the Form 990, making recommendations to the Project Office about the Form 990, and educating the public about the Form 990. Suggested activities include:

1. **Adopt or endorse the Quality Form 990 Resolution (Appendix I) and work to implement the recommendations that apply to your NAC members.** Appendix II contains several background articles that will provide more information about the history of the Form 990 and the issues and challenges that nonprofits face.

2. **Work to ensure compliance with the new IRS Form 990 disclosure rules.**

   A) Write articles that local not-for-profits can use in their newsletters or other communications. See the one-page handouts in Appendix III for various issues that can easily be made into articles. Appendix IV contains sample articles that organizations have already written about the new Form 990 disclosure regulations and the Form 990 Accountability Project.

   B) Hold a forum for nonprofits and other interested parties on how to comply with the new regulations, inviting representatives from a state nonprofit association, state charity agency, or the IRS to assist with the presentation.

   C) Develop a short brochure or handbook for distribution to local not-for-profits.

   D) Create a workshop script and materials for use by nonprofits and associations in their own conferences and meetings.

   E) Speak at trade shows and conferences on Form 990 issues.

Contact the Project Office for samples of materials you can adapt for your needs or check the website at www.qual990.org.
What Should a Local NAC Do?

3. Increase understanding of the use of technology and the Internet in the Form 990 reporting and disclosure processes.
   
   A) Hold forum for nonprofits on Internet disclosure requirements and what will be available on the Internet. Invite representatives from GuideStar, NCCS, state charity agency or other group to give a presentation.
   
   B) Create a local NAC website (perhaps affiliated with another group) to act as local clearinghouse for information on Form 990 disclosure, project information, and other data. Link it to the national Project Office website (www.qual990.org).
   
   C) Hold forum on Form 990 electronic filing, inviting representatives from a state charity agency or the IRS.

4. Improve quality, accuracy and timeliness of Form 990 reporting.
   
   A) Invite representatives of the accounting profession, nonprofit academic centers, technical assistance providers, and state charity agencies to speak about completing the Form 990 and avoiding common mistakes.
   
   B) Develop recommendations on how the Form 990 could be made more efficient, effective, and simpler and submit to the Project Office.
   
   C) Create materials for board members and other nonprofit officials and staff on the importance of the Form 990 and their role in its completion.
   
   D) Introduce the Uniform Electronic Government Grant Reporting Guide developed for the state of Tennessee and work for its use in your state. See Appendix III for handout and more information on the Uniform Electronic Government Grant Reporting Guide.

Contact the Project Office for samples of materials you can adapt for your needs or check the website at www.qual990.org.

National Results!
What Should a Local NAC Do?

5. **Increase public awareness of Form 990.**
   
   A) Hold public forum for donors to encourage use of the Form 990: discuss what the form says, what it doesn’t say, and how the public can use it as an accountability tool. Invite nonprofits, accountants and state regulators to give presentations.
   
   B) Develop workshop scripts and materials for series of forums in elderly housing, senior homes, and other demographic groups who receive large number of charitable solicitations;
   
   C) Write op-ed’s on the new disclosure rules using handouts in Appendix III and sample articles in Appendix IV.
   
   D) Create one-page fact sheet or other short material that can be included in the thank-you letter of every contributor, explaining the new disclosure rules and where the public can get copies of the Form 990.
   
   E) Hold forum for nonprofits or create guidebook on how to use the Form 990 as a public relations tool and opportunity to tell a charity’s story.

6. **Reach out to the media**
   
   A) Distribute releases to members of the local media, updating them on NAC projects and activities.
   
   B) Invite members of local media to appropriate projects and meetings, especially those involving state charity officials or the IRS.
   
   C) Develop story ideas for Form 990 as public accountability tool and use of the Internet as a way for the public to find information about the charities it supports.

Contact the Project Office for samples of materials you can adapt for your needs or check the website at www.qual990.org.

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**National Results!**
What Should a Local NAC Do?

7. **Other Projects** – After some preliminary projects are underway, NACs can use the contacts and infrastructure already created to examine other issues that affect the nonprofit sector in the area.

   A) Replicate the accountability, standards, and ethics projects of such groups as Minnesota Council of Nonprofits, Maryland Association of Nonprofit Organizations, and Colorado Association of Nonprofits.

   B) Facilitate implementation by the state charities offices of Unified Registration and Annual Reporting for out-of-state charities and fund-raising counsel and paid solicitors, sponsored by the National Association of State Charity Official’s Multi-State Filer Program.

   C) Consider public disclosure and not-for-profit accountability legislation starting with the 1986 “Model Charitable Solicitations Law.”

   D) Participate in efforts to identify and eliminate multi-state and local fund-raising abuses.

   E) Connect with and support efforts of the local Better Business Bureaus and other charity review groups, peer review groups and groups with a code of ethics.

Contact the Project Office for further information on these projects and samples of materials you can adapt for your needs or check the website at www.qual990.org.
Working with the Project Office

Keeping communications open will enable us to increase the probability of a successful project and outcome. As NACs grow around the country, we would like to be able to track the development and progress of each chapter. Knowing the participants and attendees will enable the Project Office to track the response of invited individuals and to develop a data resource we can share with others as the need arises.

*Please include the Project Office in your correspondence,* including invitations to meetings, meeting minutes, attendee lists or any other pertinent information germane to the development of your regional NAC. Additionally please provide the Project Office with any brochures, handbooks, and magazine articles, class or workshop curriculums, so we may share these documents on a national basis.

*Your feedback will play an important role in the development of this project.* We encourage you to forward suggestions for improvement. There is a feedback form (Appendix III) provided in this kit for your use. We will use those suggestions and incorporate the changes so that NACs around the country can benefit from your early experiences.

The Form 990 Project Office will be working closely with each local NAC, monitoring its progress and providing resources and assistance when necessary. The main role of the Project Office will be to serve as a clearinghouse of information about the Form 990. With its relationships with various national and regional organizations, the Project Office will have access to many different types of data related to the Form 990 (reports, studies, presentations, etc.). Local NACs can use this information as they begin their activities.

The Project Office will also provide updates on what different NACs across the country are doing. Critical issues, successful activities, new developments and stories, strategies, guidelines – all of these will be included in regular updates distributed to the NACs by the Project Office. Communication between the Project and local NACs is essential to the success of the Form 990 Project, and NACs should try to update the Project Office on their activities as often as possible.
NAC Participants

The following national organizations were asked to encourage their local affiliates to join in the activities of local NAC’s.

Better Business Bureau (150 locals)
Federal Government:
  • IRS Exempt Organizations (EO) Division
National Charities Information Bureau
Not-for-Profit Fund-Raising Organization:
  • National Society of Fundraising Executives (156 chapters, 20,000 members)
State Association of Nonprofits:
  • National Council of Nonprofit Associations (40 state and local associations, 30,000 member NPOs)
State Charity Office:
  • National Association of State Charity Officials (40 state charity offices)
State Art Agency:
  • National Assembly of State Arts Agencies (50 state area agencies with 40,000 local arts organizations nationwide)
State CPA Society, Not-for-Profit Committee:
  • AICPA (American Institute of Certified Public Accountants)
  • Greater Washington Society of CPAs, California Society of CPAs, etc.
State Nonprofit Education Groups:
  • National Association of Academic Centers
State Grantmaker Organizations:
  • Council of Foundations (1,000+ foundations, 20+ regional associations of grant makers & 300 community foundations)
  • The Foundation Center
  • Nonprofit Sector Research Fund, the Aspen Institute
State Association of Health Agencies:
  • National Health Council (over 25 national health agencies with 1500 + affiliates)
Nonprofit Groups/Associations:
  • INDEPENDENT SECTOR (over 800 not-for-profits nationwide)
  • National Center of Charitable Statistics/Urban Institute
  • GuideStar/Philanthropic Research, Inc.
  • Evangelical Council for Financial Accountability (local members)
  • National Alliance for Nonprofit Management (over 300 local management and technical assistance organizations)
  • National Assembly of Health and Human Service Organizations
  • National Federation of Nonprofits
  • National Center for Nonprofit Boards
  • United Way (1,000 local United Ways with 60,000 member agencies)

♫ For information on how to contact these organizations & their affiliates in your area, call the Project office.

National Results!
Accomplishing the Goals

Different NACs will perform different activities (see “What Should a Local NAC Do?”) but the goals of each will be the same. The Project Office offers these comments on each of the Form 990 Project goals and how a NAC should approach each one.

(1) Increase nonprofits’ understanding and compliance with IRS regulations regarding Form 990 disclosure.

The first goal is perhaps the easiest for NACs to tackle, since the regulations have been published and offer clear rules as to what nonprofits are required to do. A series of forums or presentations would provide a NAC with an opportunity to educate nonprofits in a local area about the new regulations. A critical aspect of this goal and the entire project is the flow of information from the NAC to local nonprofits. Attendees at a forum should leave with enough information to be able to include an article in their own organization’s newsletter or magazine about the Form 990 (provide a sample article for a handout). A NAC might also develop a model speech or material that could be used by anyone making a presentation on the Form 990 disclosure rules.

(2) Improve the quality of information that nonprofits report in their Forms 990.

This goal is the broadest and potentially the most difficult for NACs to wrap their arms around. It is clear that the quality of information that nonprofits report on their Forms 990 needs to be improved. But there are a couple of factors involved with improving reported information. First, an incorrect perception exists among nonprofits and accountants that the Form 990 is required but not important. That perception erroneously accommodates errors and omissions. Second, the Form 990 can be a confusing document for those with little training. Whatever the reason, NACs will essentially be working on changing attitudes towards Form 990 reporting. NACs might try a “carrot and stick” approach. Discuss incentives for accurate reporting contrasted to penalties associated with incomplete or inaccurate forms.
Accomplishing the Goals

The “carrot” perspective is a self-policing approach, encouraging accuracy and accountability because they are needed in order to live within the government’s guidelines while upholding public trust and confidence. Accountability and accurate reporting are essential because the sector cannot prosper without public support.

The “stick” approach focuses on the implications of incorrect and incomplete Form 990 reporting. Now that the Form 990 is easily available to the general public and being posted online, it will receive much more scrutiny than before. The public will be able to view errors and discrepancies on the form and ask questions about the information. Negative publicity hurts not only the organization involved, but also the entire sector. In addition, new electronic systems are being developed that can spot omissions quickly, making up for inadequate staffing. While regulatory agencies in the past have allowed nonprofits to correct errors and not be penalized, automated systems will increase their ability to levy fines.

NACs will need to use a combination of the “carrot and stick” approach in their educational activities. Different groups of people connected with the Form 990 may respond better to different NAC activities. Accountants who prepare the Form 990 may be interested in an in-depth workshop on completing the form, while nonprofit executives may be more interested in using the Form 990 as a public communications tool. The Project Office encourages NACs to be creative and innovative.

(3) Inform the public about the Form 990 and its useful information.

Mention the Form 990 to the public and almost no one will have heard of it. Publicizing a forum on the Form 990 will get little or no response. NACs should consider marketing their public education activities as consumer protection or donor information events. Attendees should be able to learn tips on wise giving, how to spot fraudulent solicitations, where to get information about a charity, etc. The Form 990 should be introduced as a document that donors can use to learn more about the charities they want to support. NACs should take care to inform donors what the Form 990 says (and equally important, what it does not say), and how it is different from an audit. If possible, NACs could show attendees specific websites where information can be obtained and how to use them. Again, handouts and other printed material will be important to leave with attendees.

National Results!
Supporting Projects in Process

There are two other components of the Form 990 Project that will be helpful to local NACs. These projects are already underway; their purpose is to facilitate Form 990 reporting:

A. Publication of a guide to the Form 990 and other nonprofit reporting. The guide will focus on IRS Form 990 and the development of a universal chart of accounts to allow for efficient reporting in a wide variety of formats and under various applicable guidelines. This work is in process and the anticipated publication date is June 2000.

B. Development of a national network of consulting, training, and technical assistance providers to give nonprofits easy access to consultation, training, and assistance in efficient and accurate reporting of financial and program data. This group will use the above referenced publication as a basis for training.

C. Development of a listserv for enhanced NAC communication.

Recommendations from local NACs will be very useful in the production of projects (A) and (B). As NACs hold forums, workshops, and presentations, they should compile the ideas and opinions that were presented and send them to the Project Office. They will be shared with other NACs and then used in the development of the reporting guide and technical assistance network.

Contact information for the Project Office:

The Form 990 Accountability Project Office
c/o The National Society of Fund Raising Executives (NSFRE)
1101 King Street, # 700
Alexandria, VA  22314
Phone: (800) 666 – 3863    Fax: (703) 684 – 0540
E-mail: form990@nsfre.org  Website: www.qual990.org

National Results!
Guidelines & Strategies

The driving strategy of the NACs should be to sponsor activities and provide information and materials to get the word out that Form 990 reporting is important. Not everyone in the nonprofit sector will be a member of a NAC, so those who are interested should be equipped to go back to their organizations and educate their staff, board members, affiliates, volunteers, accountants and the public.

State charity officials are very supportive of the project. The Project Office encourages local NACs to work closely with their state charity officials. They are very knowledgeable about Form 990 issues, and their presence will send a message to the sector that the project is important. State charity officials can be involved in forming the NAC and should certainly be invited to regular NAC meetings and activities.

Involving corporate and foundation grant makers and other funders in the project is very important. They have extensive experience with the Form 990 and will be very concerned with accuracy and accountability. Their involvement will demonstrate to not-for-profits how this project is both critical and valuable. Funding some of the NACs projects may result from an inclusive approach to this important group.

One of the key goals of the project is to change the way not-for-profits view the Form 990. It should no longer be a “necessary evil,” or a form that not-for-profit executives review briefly once a year. With the new disclosure rules, the Form 990 will become the “public face” for some organizations. The Form 990 should become a public relations tool – a chance for not-for-profits to tell their story and educate donors and others about what they do. NACs should provide a forum for discussion on making the Form 990 a valuable communications tool.

Certain states (California, New York, Texas, for example) may have more than one NAC due to geography. The Project Office will help coordinate different NACs in the same state and encourage them to work together on issues.

The Appendices contain additional background information, articles and samples of what other national organizations have done to help inform their members and affiliates about the project and the new Form 990 disclosure rules. Appendix V includes material from the New York NAC. New NACs can use any or all of these materials.
The Quality Form 990 Resolution

A product of the Greater Washington Society of CPAs, Quality Reporting Task Force. The Quality Form 990 Resolution is being developed with assistance from the 990 in 2000 project.

“Quality” means readability, reliability, comparability, consistency, completeness, accuracy, timeliness, decision-usefulness, accessibility, and cost-effective.

Whereas there is broad nonprofit sector support for public disclosure and accountability; and

Whereas while audited financial statements of nonprofit organizations provide comprehensive financial information and disclosures and offer the highest level of assurance by independent auditors, many nonprofit organizations that must have Forms 990 do not have their financial statements audited, and, consequently, the data source that provides the broadest and most accessible base of information about the nonprofit sector is Form 990; and

Whereas federal and state laws require (a) public disclosure by way of the uniform federal/state Form 990 and other reporting requirements; (b) that Forms 990 be prepared in accordance with the instructions; and (c) that nonprofit organizations make their Forms 990 readily available to the general public; and

Whereas many of the nonprofit sector standards and codes of ethics require compliance with the law; and

Whereas fiduciary duties imposed by state law on board members require compliance with the law; and

Whereas for over 30 years, leading nonprofit sector groups have lobbied in support of federal and state public disclosure laws including the 1996 amendments to federal law requiring increased accessibility to Forms 990 (widely-available provisions) and increased penalties for non-compliance with the Form 990 instructions and/or disclosure requirements; and

Whereas Form 990 is increasingly becoming the primary instrument for public accountability by nonprofits especially via the Internet (e.g., as a way of meeting the new IRS’ widely-available disclosure regulations); and

Whereas nonprofit organizations need their Forms 990 to present their organizations as fairly, accurately, and completely as possible, especially to prospective contributors; and

Whereas Form 990 is the principal source of data on the nonprofit sector that is used for (a) public policy purposes of all kinds, (b) comparative statistics for governance and management, (c) sector
advocacy, (d) research of all kinds, and (e) marketing useful products and services by for-profit and nonprofit organizations to the sector; and

Whereas reports by users of Forms 990 and studies of the quality of Forms 990 filed with IRS and state charity offices indicate that numerous errors are made by nonprofit sector organizations and their accountants in the preparation of Forms 990; and

Whereas there is extensive noncompliance with respect to the disclosure requirements of Section 6104(e) of the Internal Revenue Code which requires nonprofits to make their Forms 990 readily available to the general public;

Therefore, let it be resolved that, to improve the quality of Form 990 reporting and reduce the cost and burden, the sponsors of this resolution make 12 quality Form 990 recommendations:

1. That the **accounting profession** employ the necessary quality assurance procedures to be able to prepare Forms 990 efficiently, accurately, completely, consistently, and on a timely basis; and establish procedures that assure the proper and timely disclosure of Forms 990;

2. That **nonprofit organizations** assure that their Forms 990 are prepared by competent professionals accurately, completely, consistently, and on a timely basis; have their Forms 990 reviewed, before they are filed, by officers or a committee of their board of directors and, when there are significant changes from prior Forms 990, by knowledgeable legal counsel; have their boards of directors learn how to read and understand Forms 990 and use it as an essential internal control document for fulfilling fiduciary duty; and implement procedures to assure proper and timely disclosure of their Forms 990;

3. That **national, state, and local nonprofit sector and sub-sector organizations, umbrella groups, and other associations of nonprofit organizations**, as part of their ethics, standards, accountability, and public policy programs, encourage their respective constituents to prepare their Forms 990 accurately, completely, consistently, and on a timely basis, and to properly disclose their Forms 990 by adopting and implementing those parts of this **Quality Form 990 Resolution** that are relevant to them;

4. That **IRS** pursue electronic filing of Forms 990 and placing of all the public sections of Forms 990 for all filers on an IRS Form 990 website and promote its use world wide;

5. That **IRS** and **state charity officials** seek the participation of the nonprofit sector and professional groups in federal and state efforts to identify and publicize common reporting errors and to enforce compliance with public disclosure laws related to Forms 990;

6. That **accounting software suppliers** develop and provide software products and services, including implementation of the standard chart of accounts for not-for-profit organizations, that enable users of their software to prepare Forms 990 accurately, completely, consistently, and on a timely basis;
7. That nonprofit academic centers and technical assistance providers develop and provide educational and training tools and services that enable their nonprofit financial management students and clients to be able to prepare Forms 990 accurately, completely, consistently, and on a timely basis, and to understand and comply with the requirements for proper and timely disclosure of Forms 990;

8. That institutional donors (e.g., corporations, foundations, United Ways, federal and state government agencies) include Forms 990 (along with audited financial reports when available) in their application guidelines and grant reporting requirements and encourage their grantees to comply with Form 990 reporting and disclosure requirements;

9. That charity review groups request and use copies of Forms 990 as a routine part of their review, evaluation, and reporting activities and encourage the nonprofits they report on to comply with Form 990 reporting and disclosure requirements;

10. That information centers -- via the Internet and otherwise -- request and use copies of Forms 990 as a routine part of their data collection and reporting activities, and encourage the nonprofits they report on to comply with the Form 990 reporting and disclosure requirements;

11. That national, state, and local nonprofit sector advocates of ethical practices and full public disclosure and accountability, together with their public policy counterparts, organize Quality Reporting Collaboratives -- by state and by subsector -- that involve the accounting, legal, and fund-raising professions, technical assistance providers, academic centers, software suppliers, charity review groups, grantmakers, state charity officials, nonprofit database developers and users, and groups interested in assuring that Forms 990 are reliable and comparable, are prepared consistently, completely, and accurately, and are properly disclosed to the public in a timely fashion; and

12. That corporate and foundation funders interested in and concerned about nonprofit accountability, ethical behavior, public policy, and/or oversight consider funding programs and projects that implement various aspects of these recommendations for improving the quality and reducing the cost and burden of Form 990 reporting.
THE COMING REVOLUTION IN THE NONPROFIT SECTOR:

By Gene Steuerle

======Summary======

In his latest economic perspective column, Tax Notes economic consultant Gene Steuerle begins a two-part series on the public scrutiny of exempt organizations' records. Gene Steuerle is a senior fellow at the Urban Institute and an economic consultant to Tax Notes.

======Article ======

Part 1: Nonprofits Go Public

Surely, swiftly, yet without much fanfare, the technological age is about to lead to a remarkable revolution in the nonprofit sector. This revolution will soon lead to a markedly higher level of accountability by charities and other nonprofits, a vast expansion of public knowledge of their activities, a reorientation of IRS resources devoted to exempt organizations, and changes, which cannot yet be fully anticipated, in the performance of nonprofits and the extent of public support they receive. Only a minority of nonprofit organizations, however, are preparing for this coming transformation. What will be the cause of all this ferment? It is nothing less than the eventual fulfillment of the congressional requirement that the records of charities be open and accessible to the public. It will be led by the dramatic drop in cost of time and money that the inquirer must spend to obtain these records.

Historically, the legal mandate for access has been met only on occasion, and with much difficulty. It took much persistence for someone to gather information on a particular charity, even though the Forms 990 filed by charities (excluding churches and small nonprofit organizations) were required by law to be made available to someone who requested them. Adding teeth to this requirement, section 6104(e) requires exempt organizations to provide copies of the three most recent information returns within 30 days of a written request; it will apply 60 days after final regulations are issued.

Even then, there are problems. Until recently, details on a broader universe of nonprofit organizations could be obtained only with an extraordinary amount of effort, if at all.

Moreover, Tom Pollak of the National Center on Charitable Statistics, among others, has found that a very large percentage, perhaps a majority, have one type of reporting error or another (the exact percentage is harder to determine since IRS transcription errors are also present). Among the filing errors are not only inconsistent data, but many blank lines that in theory are legally required to be filled out by the charities, but are not.
Although a few nonprofits may actually be trying to hide information, what is likely is that for many smaller charities filling out this form involves real cost, and responding to requests for copies of it is often viewed as a special nuisance. Because charities are almost always lacking in volunteers and staff even to perform the basic functions to which they are committed, it is hard to get charity officials excited about meeting yet another bureaucratic requirement or passing on information to someone who may or may not be sympathetic to their mission.

Technology, however, marches onward and is quickly making obsolete information that must be passed on in paper form or in the mail. The multiplication of electronic information in almost every area of our lives is not going to confine itself to the business and household sectors, while bypassing the charitable sector.

Many private sector organizations and leaders have been anticipating and preparing for this revolution. The Nonprofit Accountability Collaborative, under the guidance of Bill Levis and Russy Sumariwalla, represents a cooperative venture engaging charitable umbrella groups and state attorneys general to make suggestions for improving the quality and effectiveness of the Forms 990. Among the many individuals and groups involved in this and other efforts are Sarah Melendez, Sandra Gray, and Matthew Hamill of Independent Sector; Ann Mitchell Sackey, Executive Director of the National Council of Nonprofit Associations; Peter Swords, President of the Nonprofit Coordinating Committee of New York, which leads an effort to expand and make much easier the electronic filing of Forms 990; the National Center for Charitable Statistics (NCCS) at the Urban Institute, which seeks to make Form 990 data available to researchers and others; and Arthur (Buzz) Schmidt, President of Philanthropic Research, Inc. and publisher of GuideStar (www.guidestar.org), which provides a free, searchable database of charities' information. The NCCS and GuideStar are building an electronic database of all Form 990 information, and will be posting images of these documents on the Internet. Closely associated have been David Stevenson and others instrumental in developing a "taxonomy" (the National Taxonomy of Exempt Entities or NTEE) by which to classify nonprofits, much akin to the classification code used for industry. Following the vision many years ago of individuals such as Virginia Hodgkinson, now at Georgetown University, and Elizabeth Boris, now head of the Center on Nonprofits and Philanthropy at the Urban Institute, these activities have now moved into high gear. In the interest of self-disclosure, I am involved both with several of the organizations and activities through the Urban Institute. All of these efforts have required the leadership and cooperation of the IRS, in particular, its Exempt Organizations (EO) and Statistics of Income (SOI) divisions.

Although there remains some uncertainty with respect to timing, the handwriting is on the wall. The day is quickly coming when the Forms 990 filed by charities will be cleaned up to include valuable information on activities and made available to the public almost at the press of a button. Many steps and details remain to be determined. Classification remains an ongoing responsibility, the conversion of scanned pictures into electronic form requires much labor, data files on the population of filers still contain many errors, improvements in the form itself sometimes requires trade-offs between what is simple and what is informative, and electronic filing, which would dramatically reduce some sources of error, has yet to be implemented by the IRS. Each day, nonetheless, brings this world one step closer to realization.

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TAX NOTES

The Coming Revolution in the Charitable Sector Part 2:
An Opportunity for the New IRS Commissioner

By Gene Steuerle

====== SUMMARY ======

In his latest economic perspective column, Tax Notes economic consultant Gene Steuerle completes his series on the increased public access to information returns of nonprofit organizations. Gene Steuerle is a senior fellow at the Urban Institute and an economic consultant to Tax Notes.

====== Article======

Part 2: An Opportunity for the New IRS Commissioner

The information returns of nonprofit organizations will soon be available at little effort and cost to almost anyone who wants them. Even modest curiosity about the activities of charities or of the charitable sector soon can be satiated easily. This exponential increase in availability of information will revolutionize the sector and its dealings with the public. It will change the very nature of enforcement from an IRS-centered universe to one of public monitoring. These events, moreover, present the new commissioner with a unique opportunity to show how the IRS can meet its broader mandate to serve the public in a way that both improves compliance and reduces costs.

Here is what is likely to transpire. Start with individuals wanting to know a bit more about a particular charity. With quick, perhaps instantaneous electronic access to the forms filed by charities, they will be able to determine information about the size and operations of the charity, the amount of funds it receives from different resources, whether its staff is paid or purely voluntary, and so on. In some cases, the information may be used directly to inform a decision of whether to make a charitable contribution. In other cases, an individual may cross-check this information against other sources, such as brochures put out by the nonprofit organization, or claims made verbally by representatives of the organization. Do assertions of public purpose match up well with what is seen on the information return? Do administrative, payroll, and other costs seem reasonable relative to the mission of the organization? If things seem out of order or hint at illegal or unethical activity, the individual may contact either the charity itself or an appropriate public agency about these concerns.

But individual monitoring of particular charities is just the beginning. With newly available data files on charities, it is now possible to undertake research on the sector itself in ways never before possible. Suppose researchers want to perform an analysis of the activities of human service charities in the Cleveland area. Access to information on the tax returns would allow them quickly to identify many of the charities in the geographical area that are classified as human service organizations, plus perhaps some others with closely related activities. They can then get a sense of the size and ability of charities to deal with various social needs in and around Cleveland. They can also supplement what
they learn by using a sample of these returns as the base on which a further survey would be conducted -- perhaps contacting the charities directly. Since the forms already provide much information, the researchers can focus their questions on details not already known. They also can tell easily whether the charity is providing information consistent with what is filed. Contrast this modern technique with the older, much more labor-intensive, effort of trying independently to find charities in the Cleveland area (through phone books, contacts, umbrella organizations), asking them how they might classify their activities, attempting somehow to insure that the resulting sample is representative of a broader population, and then starting at ground zero with questions that already could have been answered by access to tax returns.

The press will also be newly empowered to do studies on the nonprofit sector -- a sector the press has been slow to engage. Many newspapers don't yet even have a single reporter assigned to a sector that, including volunteers, employs about one-tenth of the labor force. That may change soon. With vastly expanded information sources, it will now be much easier to generate stories on a regular basis at a much lower cost of time.

One consequence is that more reports of potential abuse, or of charities operating inadequately for the public purpose, are going to be generated. While this goes hand in hand with increased accountability, the fear of some in the charitable sector may be that this information will sometimes be abused -- as when a start-up charity temporarily has high administrative costs relative to activities benefiting the public, or when the salaries of top officials are reported without at least some comparison to salaries they could have obtained elsewhere.

But I expect that most of the reports will also be favorable to charities, giving broader publicity to many efforts to build up civil society. I would also expect reporters to perform some of the analyses to which I referred above with the example of a study on Cleveland-based human service organizations.

In aggregate, then, greater public knowledge is likely to be beneficial to society, But knowledge is still subject to abuse, and the nagging fear about misinterpretation -- whether by journalists or individuals -- is not without basis. Fortunately, there is something that each charity can do about it. They can simply file better and more informative returns. Such efforts would minimize misinterpretation. Along the way, nonprofits can work with others to improve the accuracy, relevance, and simplicity of the return.

As for legislators and other policymakers, better quality information could enhance decision-making considerably. Soon it will be easier to gauge the impacts on society of the nonprofit sector and its many subsectors, and to assess its role relative to the government and profit-making sectors.

Now for the IRS. For years, its Exempt Organization (EO) division has played the dual role of potential leviathan to the charitable sector, an unwanted stepchild to the IRS. Because of tax exemption and the charitable deduction, the monitoring of charitable sector activity at the federal level has largely been left to IRS. To the charitable sector the IRS is like the IRS, the SEC, the
Justice Department's Antitrust Division, and the Federal Trade Commission to an industry. Yet handling exempt organizations is not a task that the IRS necessarily has wanted. Protecting the Treasury from tax avoidance is the traditional way it has interpreted its mission, and there are hardly any revenues to be raised from the nonprofit sector. Many public concerns with the sector have more to do with how "charitable" its activities really are, how it "advertises" what it does, and so forth.

Historically, the IRS often zoomed in on revenues from compliance as the measure of its success. The recent National Commission on Restructuring the IRS, led by Sen. J. Robert Kerrey, D-Neb., and Rep. Rob Portman, R-Ohio, identified this narrow focus as one that detracted from the IRS's ability to serve the public, its "consumers." Perhaps nowhere has this been more true than with the neglect often shown to EO activities. But to be fair to the IRS, it never has been given -- and still is not given -- the resources necessary to properly monitor the hundreds of thousands of nonprofit organizations that file with it.

Here, then, lies a golden opportunity for the new commissioner. Seldom have the forces for changing the enforcement function been more aligned. In truth, in any democratic society it is almost always the public that monitors itself, using the public sector as one instrument, not the source, of power. Since the Forms 990 filed by nonprofits will soon be obtainable quickly and easily to the public, it can now take on much of the monitoring that the IRS could never do.

While the forces of technology make this revolution possible, they still must be channeled. The IRS can help matters here enormously by aiding in the process of making preparation of the return simpler and yet more informative. It can improve the delivery of data files to the public, so that the public's effort itself is more timely. The IRS can speed up the process of accepting electronic returns both to reduce errors and to make the returns more easily accessible (as opposed to waiting for nonprofit organizations to convert the data from scanned picture images, an alternative that is very costly to the nonprofit sector). Finally, while such efforts themselves will help increase the visibility of returns and provide an incentive for nonprofits to report more accurately, the IRS can more directly and publicly encourage greater accuracy in reporting -- not as a threat, but as a friendly warning that future misinterpretation may otherwise occur.

Why would the IRS and the new commissioner want to devote some attention to the handling of nonprofit organizations? For one, these organizations represent a large part of their "customer" base, even if one that has traditionally been largely neglected. More importantly, rarely is one able to find such a win-win situation. Devotion of a little effort to public relations, improving return preparation, encouraging electronic filing, and making easier the conversion of IRS data into publicly available data involve only very modest IRS resources. The gains achieved in public monitoring of the sector, and the inevitable feedback effect of more accurate reporting in the presence of increased visibility, will be quite large by comparison. With more public monitoring, the IRS fulfills much better its public service role with respect to nonprofit organizations and in the long run reduces its own costs. With better quality information, better decisions on both policy and administration are likely. There is another side benefit in that the processing efforts made here by EO and the IRS Statistics of Income (SOI) Division have broad application to other parts of the IRS, including finding ways to improve the now very inaccurate "Master File(s)" of tax returns, reducing duplication of effort because Master File and similar data are considered so inaccurate that data are reentered for other internal purposes, and increasing knowledge on how to use electronic filing and to reduce other processing costs.
The efficient use of modern computer capability, attention to its broader public mandate, the better service of customers, a more informed public policy process, and better compliance at reduced cost to the public -- these are among the goals sought for the new IRS by both the Congress and the commissioner himself. Through a unique set of circumstances, exempt organizations provide an ideal area in which to showcase that these goals are achievable.

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Disclosure law and Internet access spur new focus on charity tax forms

By Jennifer Moore and Grant Williams

Charities nationwide are gearing up for a new era of public scrutiny. The Internet revolution, and a recent change in federal charity-disclosure laws, mean that millions of Americans are about to have quick and unprecedented access to information about non-profit groups: what they spend on fund raising, how much money they devote to lobbying, and how they compensate their top executives. Regulators, too, will find it easier to analyze the ways that charities use – or misuse -- their money.

Some charities and foundations are apprehensive about the new openness. They fear that the information, reported by organizations with annual gross receipts of more than $25,000 on a highly detailed tax return known as Form 990, may be confusing to most Americans, or may be taken out of context.

But other charities see the changes as an opportunity to promote themselves to a giving public that is flush with stock-market gains and to a baby-boom generation that is poised to inherit trillions of dollars from their parents.

Either way, charities are being urged to prepare for the legal and technological changes. Regulators and umbrella groups representing non-profit interests are calling on charities to:

* Make sure their board members and senior executives look over the tax forms, both to be certain that they are accurate and to be prepared to answer questions about them from the public.

* Add information to their Forms 990 to elaborate on their charitable programs and tout their achievements to would-be donors.

* Consider posting their Forms 990 on their World-Wide Web sites as a low-cost way to comply with the new disclosure law, which otherwise will require non-profit groups for the first time to mail out copies of their returns in response to written requests. At least one organization, Philanthropic Research, has posted limited financial information about hundreds of thousands of charities on its GuideStar Web site and hopes to post all charity 990s in coming years.

"The 990 is not going to be disappearing into any filing cabinet or vault anymore," says Matthew Hamill, vice-president for government relations at Independent Sector, a national coalition of
major grant makers and charities. "It's going to be seen by a lot of people -- whether we like it or not and whether we know it or not."

It may be some time until large numbers of people can gain ready access to the forms. Still, federal and state regulators are already excited about the possibilities for how such widespread access could improve the way they monitor charities. Prospective donors and others who look at the forms might discover questionable financial data and point out potential problems that have previously gone unnoticed. What's more, charities are likely to be more careful to report their activities accurately.

And as charities' financial information becomes computerized, regulators will be able to spend less time shuffling paper and more time actually analyzing the numbers and taking action when appropriate.

Checking the Forms

The growing importance of charity tax returns has prompted some organizations to make sure that their top volunteers and employees are familiar with what is on the forms.

The Hoag Hospital Foundation, in Newport Beach, Cal., now makes sure that each of its 11 board members carefully look over its Form 990 before it is sent to the Internal Revenue Service. Starting early next year, the foundation's parent, Hoag Memorial Hospital Presbyterian, will follow a similar procedure with its 24 board members.

At any charity or foundation, "board members should be aware that this is increasingly going to be the document" that the public uses to understand an organization, says James M. Greenfield, the hospital's senior vice-president for development and community relations. "Someone may walk up to them and say, 'Hey, I see your name here, tell me about this organization. Can you answer a question about this item here that I've marked?' And the person is looking at a copy of the 990 itself."

Charities are also starting to make sure that top executives, including fundraisers, pay more attention to the tax forms. Paulette Maehara, president of the National Society of Fund Raising Executives, in Alexandria, Va., says charities need to be prepared for potential donors to use the forms to calculate the percentage of money a group spends on fund raising or on charitable programs.

"In many cases the fundraisers have no knowledge of what goes into the 990," says Ms. Maehara. "Charities need to make sure the numbers make sense and provide an accurate picture of their work."

Accuracy has often been a problem on the forms. Research groups, including the Urban Institute in Washington, have done numerous studies detailing problems with incomplete or inaccurate forms. The Urban Institute -- under the guidance of Wilson C. Levis, a senior associate there -- has taken a lead role in bringing together charity leaders and state and federal regulators to discuss ways to improve the forms in anticipation of an expanded audience for them.
Lack of Careful Attention

Margaret DeBoe, a certified public accountant in Bethesda, Md., who has long worked with non-profit groups, says charities and accountants have had little incentive until now to spend much effort perfecting their Forms 990.

"I don't think that anybody has cared, and I mean that across the board," she says. "The accountant has been hard pressed to justify putting in an extra hour or two making the 990 perfect when he or she knows that the non-profit is not going to really look at it."

Ms. DeBoe estimates that only 10 of the 200 or so non-profit returns she prepares each year ever come back to her with any comments. "Most 990s go to a controller, who signs it and mails it to the I.R.S.," she says. "The executive director never looks at it; the board never looks at it."

Competition for donors may ultimately be what drives charities to pay more attention to their tax forms.

James Caputo, a certified public accountant who has had numerous non-profit clients, says that just as charities now spend time and money on their annual reports, they may do the same with their tax returns if potential donors start reading them. "Once people realize that this data is starting to be available on the Web and can be searched," he says, "they will realize the value to their organizations of having the kind of information that makes them look good and makes sense."

Marc Owens, director of the I.R.S.'s Exempt Organizations Division, says he is encouraged to hear charities talk about giving their tax returns increased attention. But he worries that some organizations may be tempted to fudge their numbers to make themselves look better. He cautions charities to keep in mind that it is a crime to file false information on federal forms.

In addition to taking steps to improve the accuracy of the tax forms, some non-profit groups are also considering whether to add new information to their Forms 990. One area drawing particular attention: the section of the form that asks charities to spell out their mission and programs. Now those sections are often filled out with a vague sentence or two that was written by a financial officer or accountant.

T. J. Sullivan, general counsel at the Coalition for Nonprofit Health Care, in Washington, says donors should be able to read a Form 990 and gain a good understanding of what an organization does in exchange for its tax-exempt status.

"It's not necessarily going to be people in your own communities who will be reviewing or analyzing or using the information on the Forms 990," he says. "It could very well be people from far away -- elsewhere in the nation or even internationally -- drawing conclusions about what not-for-profit organizations are doing. And you want to make sure they get the full story."

The health-care coalition Mr. Sullivan represents sent out an alert to its members this summer telling them to use their tax forms to explain the "community benefits" they provide, such as free care to the poor.
Still, expanding the narrative section could have drawbacks, some experts warn.

The Form 990 has become "very effective" as a quantitative tool for spotting excessive compensation and other improper acts by charity managers, says Peter Swords, president of the Nonprofit Coordinating Committee of New York. But he expresses reservations about using the form to illuminate the "qualitative" results of charities' work, such as their success in meeting clients' needs.

"That's exceedingly hard to do if you're relying on a text-based disclosure instrument like the 990," Mr. Swords says. "I don't want to see it mucked up by trying to do too much."

Federal and state regulators agree that the emphasis of the 990 must remain on the numbers. But they say any steps to make it easier for their offices and the public to understand how charities work will carry many benefits.

The revenue service is in the process of scanning electronically all charity and foundation Forms 990 and, in coming months, will make the electronic images available on CD-ROM's for purchase by anyone. Organizations such as Philanthropic Research hope to take the I.R.S. files and make them available on Web sites.

State regulators hope that they and charities can both save a lot of time and money when 990s are all posted on a single Web site or made available as part of a national electronic data base.

Says Michael S. DeLucia, director of charitable trusts at the New Hampshire Attorney General's Office: "The vision is to have the charity file once. Right now some of the larger national charities must file 990s with the I.R.S. and then with 38 states that also require it. That's 39 filings and is tremendously costly."

If charities could eventually file once, and then that information could be shared with states and the public, "you've reduced the cost and the burden upon charities and you've cut back enormously on the paperwork that the state attorneys general have to grapple with," says Mr. DeLucia, who is also president of the National Association of State Charity Officials.

State regulators say they would be able to do a better job cracking down on charity abuse -- and educating the public and charities -- if they didn't have to spend so much time collecting the Forms 990.

"Access to digital information will allow for computerized audit checks and will increase the quality of information filed with state charity offices," says Dan Moore, charities registrar in the New Mexico Attorney General's Office.

Many state regulators now feel snowed under with paper copies of charity forms that they must collect and keep track of. Mr. DeLucia says such administrative work has interfered with enforcement.
When charity scandals arise, he says, "I ask myself, where were the attorneys general? Why do they always come in at the end and not in the middle or at the beginning of the process? And one of the answers is, We don't have the data. And the way to get the data is, in the long run, to use some type of electronic filing process."

Some observers believe that electronic filing will be most useful if the Form 990 itself is updated to reflect emerging trends in the way charities raise and spend money. One suggestion is to increase the amount of financial information that charities must disclose about their affiliates, including a more in-depth report on profit-making arms that market products or services to the public.

Another suggestion is to change the form so that it itemizes the amount of money that charities pay to professional fund raisers who help run special events such as walkathons, telethons, and benefit balls.

"Special events used not to be as professionalized, and folks would like to see the expenses attached to it," says Angela Bies, director of the Charities Review Council, in Minnesota.

Complex Documents

Despite the hopes of regulators and some non-profit leaders that expanded access to the Forms 990 will benefit charities, doubts remain about the wisdom of making such complex documents widely available for public consumption.

Some states have taken steps to help donors and others glean key data from the forms. Tennessee, for example, produces a pair of summary forms on charities that operate within its borders: a two-page distillation of financial data, including the total amount paid to professional solicitors; and, beginning this year, a one-page document that shows charities' revenue and expense breakdowns and their fund balances.

Making It Easier for Donors

"Donors have difficulty reading a 990," says Barbara Toms, director of Tennessee's Division of Charitable Solicitations. "When you can give them something in user-friendly language showing them who these charities are, what they said they were going to do with the money, and how they spent it, then you've pretty much given them what they want."

But many non-profit organizations still feel squeamish about having the public rely too heavily on tax documents.

Many non-profit officials worry that widely circulated Forms 990 will confuse people who do not have strong accounting skills. Some charity and foundation officials make it a policy to sit down with those who request their forms to offer explanations of the numbers.

Ani Hurwitz, a top official at the New York Community Trust, notes that a non-profit organization's audited financial statements often present very different numbers than its Forms 990 because different rules apply to the way each is compiled.
If someone obtains an organization's Form 990 through the Internet and then picks up its audited financial statements published in an annual report, "the numbers won't track," says Ms. Hurwitz, who adds that this leads to more confusion for the reader. "Our audited statements give a far more accurate picture than the 990 does."

Other charity officials fear that the widespread availability of salaries and benefits could lead to resentment among their own employees and prompt an outcry from Americans who are not aware that some non-profit officials may earn six-figure salaries.

While most charity leaders say they support greater accountability, many struggle to balance personal privacy with public openness.

Steve Snyderman, manager of Goodwill Industries of Eastern North Carolina, says "it just felt bad" when his salary, which appeared on a charity tax form, was published in The Chronicle several years ago as part of a salary survey.

"I never ask anybody what they make," he says. "It's none of my business." Still, Mr. Snyderman says, his organization makes its Form 990 information readily available. Last year, for example, it put 1,000 copies of a one-page summary of financial figures taken from the form, including several of the salaries paid to top officials, in each of its thrift stores.

"Times are changing, and we have to get used to public inquiry and openness," says Mr. Snyderman. "It's just a tide that you can't turn back, and you're just going to have to deal with it."

Thomas J. Billitteri contributed to this article.

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The Big Picture: Why Should We Care about the Form 990?

- **Forms 990 are the most commonly used data source about not-for-profit organizations.** The Form 990 is the information return that most 501(c)(3) charities file annually with the IRS. (Organizations with revenues of less than $25,000 or are religious organizations are exempt.) Although audits provide more comprehensive financial information, few not-for-profit organizations conduct or are required to conduct audits. Consequently, the Form 990 is the primary source of information about the nonprofit sector.

- **With the new IRS regulations, anyone can request a copy of an organization’s Form 990.** In the past, a nonprofit only had to disclose its Form 990 if a request was made in person at the not-for-profit’s offices, and was not even required to make a copy. The new regulations require that a 501(c) organization make copies of its three most recent Forms 990 for anyone who requests them, whether in person or by mail, fax or e-mail. Anyone can also request a copy of a not-for-profit’s Form 1023, the IRS form used to apply for tax-exempt status.

- **The Internet is making the Form 990 more widely available than ever before.** Since July 1998, Forms 990 received by the IRS have been scanned. The images are being posted on a website jointly sponsored by the National Center for Charitable Statistics and Philanthropy Research, Inc. – PRI. There will be over 200,000 forms on the website by the end of 1999. With just a click of the button, potential donors, reporters, and others can have access to the Form 990 without an organization ever knowing.

- **Several studies of 990 returns have shown that a sizable portion contains errors and omissions.** Many Forms 990 not only have mathematical errors, but also simple mistakes, as well as omissions and information that has been put in the wrong section. Donors, policy makers, and others will be using the Form 990 to make decisions. Inaccurate or just plain wrong information diminishes the credibility of nonprofit organizations across the country and the level of public confidence and trust.

- **The need for better quality information about the not-for-profit sector is greater today than ever before.** The not-for-profit sector has grown tremendously in the past 20 years and accounts for nearly 12% of the American economy and employs nearly 10% of the American workforce. At the same time, the needs of the American population have also grown. Despite the strong economy, some nonprofits are struggling. Information on the sector – its activities, successes, and problem areas – is necessary to increase the understanding nonprofit organizations need.
The Big Picture: Why is an Accurate Form 990 Important?

- **Compliance** – Quite simply, filing accurate and complete Forms 990 with the IRS and state charity officials is the law. As stewards of the public’s money, not-for-profits have a responsibility to report on their activities, including their finances. Yet many nonprofits, including their executives, board members, and accountants, pay scant attention to the form. This lack of attention can lead to incomplete and inaccurate data, as well as fines and other legal action.

- **Public Accountability** – While filing an accurate and timely Form 990 is the law, it is also in the self-interest of all nonprofits to do so. Public trust and confidence are the foundations of the nonprofit sector. To keep that trust, nonprofits must show that they are accountable and responsible. If it is in the public’s best interest to have the Form 990 information disclosed, then it is clearly in the sector’s best interests as well.

- **Primary Source of Data** – All sorts of people will be using the Form 990 for research, especially now that the new regulations make it much more accessible. In a recent study, 2 out of 3 grant makers asked for the Form 990, and one out of three said that the data influenced their final decision. Researchers will be using the 990 information to get a handle on the ever-growing dimensions of the sector (NCCS and PRI are leading the way in scanning and digitizing Form 990 data, creating the most comprehensive database ever). And while many donors may not be familiar with the Form 990 yet, regulators and other groups will undoubtedly begin suggesting that donors ask for copies of the Form to help in their giving decisions. Nonprofit organizations should prepare now!

- **Policy Making** – As the sector grows, so does its prominence, which means that legislators and other government officials will pay more attention. Already, certain states have debated proposed legislation to change the tax-exempt status of certain nonprofits, or the granting of tax credits to donors for contributions to certain charities. Accurate data will help policy makers develop the most effective ways of helping the sector, and allow not-for-profits to better defend themselves against ill-advised legislative initiatives.

- **Public Relations** – Completing the Form 990 is usually considered a bothersome chore by most organizations. However, nonprofits need to change the way they view the Form and see it as an opportunity to present themselves and their programs in the most accurate and positive way. The new disclosure regulations will undoubtedly allow the media to develop more stories and studies of nonprofit organizations. Presented in the right way, Form 990 information can help inform the media about issues such as executive salaries, fund-raising costs and others.
IRS Form 990 Disclosure Regulations

- As of June 8, all 501(c) organizations – except private foundations -- will be required to send copies of their three most recent Forms 990 (as well as their Form 1023, the form to apply for tax-exempt status) to anyone who requests them.

- If the request is made in person, not-for-profits must provide copies of the forms immediately. If the request is made in writing, by fax, or e-mail, nonprofits have thirty days to mail out copies.

- Charities may charge a “reasonable fee” for copying and mailing the forms. Reasonable is defined by the IRS as; One dollar for the first page and 15 cents for each additional page.

- For written requests, nonprofits can require advance payment of the copying and mailing fees. In that situation, the thirty-day limit would not begin until the not-for-profit had received the payment. Groups that do not have pre-payment policies will have to notify the person requesting the form(s) of any copying and mailing costs exceeding twenty dollars.

- Nonprofits can avoid the photocopying requirements by posting their forms on the Internet. The material may either be posted on a not-for-profit’s own website or at another site that functions as a database of information about not-for-profit organizations. However, several requirements must be met with the posting before nonprofits can be exempt from the photocopying requirements.

- Employees of nonprofit organizations are subject to fines of twenty dollars for every day they fall behind in providing the form(s), up to a maximum of $10,000 per return. In addition, a $5,000 penalty for “willful failure” can also be applied.

- The final regulations also include guidelines on how not-for-profits should handle requests if they feel they are the subject of a harassment campaign. The IRS has said that it will publish in the near future information about how it will identify harassment campaigns and set up appropriate fines and penalties for the perpetrators.

- The new disclosure regulations will not affect private foundations. In 1998, Congress mandated that disclosure of private foundations’ Form 990-PF conform with the requirements for other not-for-profits. However, the IRS must still issue those regulations, and until those regulations are finalized, private foundations will continue to follow their own rules on disclosure.

NACs should note that this is not an exhaustive summary of the regulations, but discusses the major points. Contact the Project Office if more information is needed.
Form 990 Scanning

By the end of 1999, scanned images of all Forms 990 filed by public charities will be on a website, easily available to anyone with access to the Internet. This is the result of a joint effort of the National Center for Charitable Statistics (NCCS) at the Urban Institute’s Center on Nonprofits and Philanthropy, and GuideStar, the website for Philanthropic Research, Inc. (PRI).

NCCS works to provide the highest quality data, both descriptive and financial, on nonprofits to meet the information needs of government, researchers, and the nonprofit community. PRI’s mission is to help improve the effectiveness of the nonprofit sector by providing information on individual organizations to the public through its website, www.guidestar.org. Neither are watchdog organizations - their goals are to provide information that will inform policymakers and the public in making decisions about nonprofits.

The project has two parts. First, the Internal Revenue Service scans the Forms 990 and provides the images which are converted for viewing on a website set up by NCCS and GuideStar. Second, many of the Form 990 lines with financial and descriptive data will also be digitized to create a research database that will allow much greater analysis. A full year of data (both scanned images and the digitized database) will be available by the end of 1999.

The NCCS/GuideStar website will be available to the general public, state charity officials, researchers, media representatives, and others interested in the scanned images. The IRS has indicated that it may be willing to include a reference to this website on its materials.

The website will include important information about the Form 990, with emphasis on understanding the Form 990 and its use in analyzing the finances of nonprofits. There will also be links to the NCCS (http://nccs.urban.org) and GuideStar (www.guidestar.org) websites, so that users of the data will be able to easily find additional information that will help create a context for the Form 990 on a specific organization.

The digitized database of Forms 990, derived from the scanned images, will be the most complete and highest quality information ever available on nonprofit organizations. It will greatly expand possibilities for research on nonprofit organizations. GuideStar will use the data to prepare reports on individual charities as well as to develop comparative benchmarks for its web-based reports. NCCS will use the data to analyze trends in finances and the state of the sector, as well as other research projects.
Useful Websites

The following websites are good sources of information about the Form 990, nonprofit accountability, and other issues that NACs may tackle.

- qual990.org – The official website of the Form 990 Project, containing project and NAC information, materials available for downloading and links to other sites. This site is under development as of 8/99.

- www.form990.org – The Form 990 website. This site is a prototype of an electronic or magnetic filing system that when enabled will allow the user to complete a Form 990 and submit it to the appropriate agencies. Additionally the site will enable the public to view any Form 990 on record. The form 990 will be a smart form and will signal the user when calculation, ratio, and omission errors are made.

- www.muridae.com/publicaccess/index.html – “The U.S. Nonprofit Organization’s Public Disclosure Regulation Site.” Eric Mercer, Manager, DU Consulting and Development Division developed this site as a resource guide for information access. This site provides valuable links to publish Form 990 online, federal rules regarding disclosure and financial analysis of tax returns.

- www.990online.com – Eric Mercer’s site on how to fulfill requirements of the new IRC Section 6104 (d) through online publication.

- www.bway.net/~hbograd/cyb-acc.html – Cyber-Accountability Project of the Nonprofit Coordinating Committee of New York. A scholarly, well written site that addresses issues within the nonprofit sector and offers a listserv for the sector.

- www.indepsec.org/programs/leaders.html – Independent Sector’s Leadership Program contains an Ethics and Accountability component, with links such as “A Checklist of Accountability.” This site provides a list of items to disclose that fosters trust between grantmakers and grantseekers.

- www.ecfa.org – “Seven Standards of Responsible Stewardship” and “Donor’s Bill of Rights.” Evangelical Council of Financial Responsibility. Seven Standards is a doctrine of practices to adopt for a responsible and accountable organization. Donor’s Bill informs a perspective donor on what they should know before they donate.
Useful Websites

www.bbb.org/pas/srp-- Council of Better Business Bureau’s Standards for Charitable Solicitations. The BBB outlines activity standards to promote ethical practices by philanthropic organizations. Subject areas range from governance to public accountability. This site also provides definitions of activities and could be useful in developing by-laws.

www.give.org/standard.cfm – National Charities Information Bureau’s Standards in Philanthropy. This site details standards by which a donor can judge an organization and offers a free publication entitled Wise Giving Guide.

http://nccs.urban.org – The National Center for Charitable Statistics (NCCS) located at the Urban Institute. NCCS serves as the national repository from the Internal Revenue Service and other sources of statistical information on the nonprofit sector.

www.guidestar.org – GuideStar, an initiative of Philanthropic Research, Inc., contains numerous information on specific nonprofit organizations. It currently has data and statistics for more than 650,000 nonprofits based on information from Form 990.

www.nonprofits.org – Information for and about nonprofit organizations. An overview of the nonprofit sector with news, changes and developments. This site has a nonprofit locator, essays on fundraising and giving and an extensive FAQ database.


www.ncna.org – The National Council on Nonprofit Associations website. This organization is a network of state and regional associations with a collaborative membership of more than 20,000 community nonprofits.
Common Errors Found on the Form 990

✓ 52% - of the forms with mistakes failed to complete Schedule A, the section of the form that requires charities and certain types of charitable trusts to list the salaries and benefits awarded to top officials and to top-paid independent contractors. This part of the form also focuses on advocacy activity and contains additional questions about financial issues not covered on the Form 990 itself.

✓ 17% - did not have the signature of any of the organization's officers.

✓ 10% - did not list the correct tax year.

Common Errors Found on the Form 990-EZ

✓ 54% - of the forms with mistakes failed to complete Schedule A (as above)

✓ 15% - should have filed the Form 990 instead of the EZ form.

✓ 6% - did not list the correct tax year.

✓ 5% - did not have the signature of any of the organization's officers.

(From the Chronicle of Philanthropy, December 17, 1998, “A Sampling of Common Errors on Forms 990,” Jennifer Moore and Grant Williams)
We Need Your Feedback

We would like your input on how to improve this information package.

- What was useful? How?
- What information is missing that you would like to see included?
- Would you like information on contacts in your state?
- How can we at the Project Office help you?

K Simply fax this form back to us at (703) 684-0540 or send us your comments via e-mail at form990@nsfre.org
Uniform Government Grant Reporting Guide

The 1998 edition of Accounting and Financial Reporting for Not-for Profit Recipients for Grant Funds in Tennessee has been created for chief executives, business officers, and accounts of not-for-profit organizations (NPOs) that submit financial reports to any unit of the government of Tennessee.

The manual provides guidance in adopting current accounting principles for NPOs promulgated by the Financial Accounting Standards Board (FASB) and followed by the American Institute of Certified Public Accounts as generally accepted accounting principles (GAAP). The IRS and state charity registration agencies accepting IRS Form 990 require that IRS Form 990 be prepared in strict accordance with its instructions including line-item content and expense allocation.

To achieve the purpose of providing accurate, complete, timely, understandable and useful financial data to internal and external decision-makers an accounting system should have five objectives. They are:

1. Record all financial data in a systematic manner that will facilitate the preparation of all your financial reports.
2. Classify and record the data on a consistent basis.
4. Establish controls that provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are recorded properly and executed in accordance with management’s authorization.
5. Employ computer software and systems that assure effective and efficient operation of your accounting and financial reporting system.

This manual provides a basis for accomplishing the above stated objectives and details a line entry system for uniform reporting. Our goal would be to adopt this system so a consistent reporting method could be employed on a national basis. The benefit of adopting a single system is the reduction of administrative costs associated with organizations that are forced to file multiple state forms.
The Form 990 in 2000 Project

By Michael Nilsen

One of NSFRE’s key goals in its new Long-Range Plan is to expand its advocacy and government relations efforts. While NSFRE’s Public Affairs Department will be increased so as to provide greater and more detailed advocacy services to members, chapters will be asked to begin coordinated efforts to reach out to local government officials and regulators.

One way chapters can begin these efforts is through the Form 990 in 2000 Project. Don’t be intimidated by the title or if you don’t know much about the Form 990 other than it is your organization’s annual financial reporting form. The Form 990 Project is the perfect way to begin bringing your chapter into contact with local state regulators to discuss issues and problems related to fund raising and the not-for-profit sector in your community. And getting started can be easy because some states have already begun the project. But before anymore is revealed, a little background on the Project.

Three factors contributed heavily to the development of the Form 990 in 2000 Project. The first is the expansion of IRS regulations. Since the 1950s, the IRS has required that Form 990s be made available for public inspection. The new regulations on public disclosure mandate that not-for-profits must distribute copies of their Form 990 to any member of the public that requests one. The regulations will probably go into effect later this year. The second is the growing trend of posting Form 990s on the Internet. Some state charity offices, watchdog groups and other organizations are displaying the Forms on their websites, meaning anyone can find out detailed information about your organization.

The result of the first two factors means more of the public will have access to more information about not-for-profits than ever before. So far, so good, but the third factor presents the real problem. According to studies from professional accountants, a large number of Form 990s (60-70%) contain major errors. These mistakes are not just simple calculation errors, but huge discrepancies in numbers and certain required information omitted or misplaced.

The challenge, then, is that increasing technology means inaccurate and incomplete information being distributed more quickly to the public. The consequences for not-for-profits could be immense. Researchers and public policy makers rely on data from the Form 990. If that information is incorrect, how can we expect our elected officials to make good policy? How can we tell our story to the public if all they see is information that is at best incomplete, and at worst full of errors?
The primary goal of the Form 990 Project is to bring together in each state representatives of the not-for-profit sector, the accounting profession, and elected officials and regulators to discuss increasing the quality of the information on the Form 990. These state groups (which will be known as “accountability collaboratives”) will work to increase awareness and importance of the Form 990. On a national level, the Project will publish a guide to the Form 990 and other not-for-profit reporting, and develop a Nonprofit Management Assistance and Accountability Network, which will provide to organizations access to consultation, training, and assistance.

But the state collaboratives don’t have to limit the issues they discuss solely to the Form 990. Collaboratives, convened and led by the NSFRE chapter(s), can also discuss issues related to fundraising laws and other not-for-profit legislation, public disclosure, standards, and ethics. The collaboratives can be used to replicate the work of other state projects (such as Maryland Gives!, which looked at ways to increase charitable giving in that state) or to reach out to other associations, watchdog groups, and other organizations. The possibilities are only limited by what the chapter wants to accomplish.

The Form 990 Project is a great opportunity for chapters to get involved in government relations. An important point is that the IRS and the National Association of State Charity Officials (NASCO) are very interested in the success of the Project since, by legislative mandate, they are responsible for the quality and success of the Form 990. They have committed their support to the Project and are willing to encourage IRS staff and NASCO members in each state to work with the local collaboratives.

NSFRE has agreed to take a leadership role in the Form 990 in 2000 Project. Information about the Project will be distributed with the Public Awareness Initiative in April. NSFRE is looking for interested individuals in each chapter to serve as representative to these state collaboratives and, in some cases, to begin the process. Some states have already started up such collaboratives and will be looking for NSFRE participation.

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FILING IRS FORM 990 ELECTRONICALLY

Peter Swords

The Form 990, the information return that has to be filed annually with the IRS, is a public document and is becoming even more public. As of this writing you are required to show any or all of your 990s for the past three years to anyone who comes into your office and asks to see them. By Spring 1999 a new law will go into effect that will require you to mail such 990s (for a reasonable fee) to anyone who writes and asks for them. NPCC believes that in the near future your 990 will be posted on the Internet and available to anyone in the world who wishes to see it. There are several organizations that are currently working to achieve this effort.

Some people think electronic posting of the 990 is a good thing, others have reservations. We briefly explore what we understand as both sides of the issue.

Cons
Those who have expressed reservations about putting 990s on the Internet seem to be worried about the ease with which a 990 may be accessed. Anyone with access to the Internet will be able to, with literally a few clicks of the mouse, bring up on their screen and download any 990 they want to view. While someone wishing to inspect a 990 may think twice before they visit a nonprofit's office and while it takes a little effort to write a letter and cut a check, it will take almost no effort to obtain a 990 on the Internet. Furthermore, in the case of both visiting and requesting by writing your identify may be revealed. In contrast, when using the Internet, the organization whose 990 you are looking at will never know you are doing so. Some people fear that a few may take advantage of this openness and ease of access to harass groups.

Pros
The 990 is where nonprofit accountability starts. It is the basic nonprofit disclosure form playing the same role for nonprofits that a slew of forms (10Ks, 10Qs, proxy statements, etc.) play for the 13,000 companies registered with the Securities & Exchange Commission. In addition to the IRS, the New York Charities Bureau of the Attorney General's office and 34 other state charity offices use the 990 as the basic annual disclosure form. It is in the public interest to have this information disclosed. It allows the public to help with the oversight function by providing important information about nonprofits. Having this information disclosed helps keep nonprofits accountable. Ultimately, an accountable nonprofit sector is essential for maintaining the public trust and the public trust in turn is essential for the flourishing of the nonprofit sector. Therefore making this information available is in the interest—indeed, self-interest—of the sector.
In considering your views on this subject, remember that you need not disclose the identity of your donors or the amounts they have contributed.

Among other things, the 990 reveals the following information:
— The names and salaries of the chief executive officer (and in some cases the chief financial officer) and the names and salaries (if they receive $50,000 or more) of the five highest paid employees after the CEO and CFO.
— The names of all your directors and how much, if anything, they get paid. You do not have to reveal the home addresses of anyone. Where addresses are asked for you can give the address of your organization.
— Whether your organization engaged in any self-dealing transactions (for example, a board member sells a building to your organization at above market value) with any key employee or board member and if so a description of the material facts of the transaction.
— How many people your organization employs.
— Basic financial information like the amount of revenue received by type (gifts, government contracts, etc.), net assets or fund balances at the beginning and end of an organization's fiscal year, expenses by type (compensation, supplies, etc.) basic balance sheet information and much else.
— How much your organization spent on fundraising, administration (management and general) and program.
— Some limited information about your program accomplishments.
— Information about the extent of your organization's lobbying and political activities.

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Example -- New York NAC Organizational Meeting

The following information is a summary of the ideas that were discussed at the first organizational meeting of the New York NAC. This information is provided to give NAC’s an idea of the range of issues that NACs can tackle. NACs should feel free to pursue similar or different activities, as long as they are consistent with the purposes of the Form 990 Project.

The first organizational meeting of the New York NAC consisted of representatives of the New York State Office of the Attorney General; the Exemption Organizations Division of the IRS; the Philanthropic Advisory Service of the Better Business Bureau; the National Charities Information Bureau; KPMG (accounting firm) and the state society of CPAs; and the Nonprofit Coordinating Committee of New York (a state association of nonprofits).

The New York NAC is dividing its efforts into two components: Education and Technology. The Education Subcommittee will focus on three different groups: nonprofit boards, accountants, and non-professionals. Its goals will be to: (1) identify frequent errors on the Form 990; (2) develop educational materials to correct these mistakes; and (3) develop materials to teach people to properly interpret the 990. The subcommittee will be composed of 3 – 4 accounting professionals, 3 – 4 Chief Financial Officers, and representatives from the IRS and the Office of the Attorney General.

The Technology Subcommittee will develop a list of problems with Form 990 preparation, distribute a survey to accountants, regulators and chief financial officers, and research accounting software to begin development of a standardized collection system.

The New York NAC decided to make good use of each organization’s mailings, using newsletters and memos to keep interested professionals updated on the NACs activities and important information about the Form 990.

The NAC realized that turnover at organizations would be fairly constant, and that certain components and presentations would need to be given on a consistent basis. Suggestions were made to develop permanent education resources, such as videos, CD/ROMs, speeches, etc. that could be used by many different people.

The NAC will also be looking at developing curriculum for nonprofit financial management courses at local colleges and universities. It will also be working with the IRS to encourage seminars on Form 990 reporting.

Future Plans: Within a couple of weeks of the meeting, the NAC hoped to assemble all the members of the various subcommittees and develop a schedule and agenda for the year.