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Since 1973, the **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, **Toledo Community Foundation** helps donors

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Dramatic IRS Shift for Nonprofits

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By Christopher K. Hepp

Tax time is approaching, but before you start complaining, talk to your favorite charity.

Financial officers and accountants for the largest nonprofits this year are facing the most dramatic change in Internal Revenue Service reporting requirements in 30 years.

Nonprofits, which don't pay federal taxes, but still must report their income, are confronted with a new, more complicated public-reporting form, called form 990, that demands a deeper look at how organizations operate. It now delves into questions such as how top officers are compensated and what potential safeguards exist to prevent corruption.

Donors and others can scrutinize the forms filed by nonprofits at several websites.

The new form is designed to improve accountability and transparency. This year, only the biggest nonprofits—those with at least \$1 million in revenue or \$2.5 million in assets—need use it. By 2011, all will.

The core form has grown from nine to 11 pages. It now has 16 possible schedules, up from two.

Mary Anne Hakim, a Washington accountant specializing in nonprofits, estimated it would take 35 percent to 40 percent more time to complete.

Sudha Iyer, vice president for finance and administration for the New

transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

Jersey Audubon Society, thought it might be even more demanding.

The old form took her about three days.

"I've told colleagues, it is now going to take a week or more," she said. "But it is a good thing because now we can do some spring cleaning. We will reexamine our existing policies and make sure they are in line with the best practices."

Which is what the IRS was hoping.

"We don't think it is our place to tell you how to govern, but we do believe it's our place to educate and push organizations into developing a governance structure of their own," Lois G. Lerner, director of the IRS's exempt-organizations, said when the new forms were previewed two years ago.

The pressure for greater oversight has been building since the 2002 passage of the Sarbanes-Oxley Act, which enhanced financial-disclosure and accountability standards for publicly held companies.

Nonprofits have been required to file 990s since 1942, but the information sought was largely financial: how much money came in and how it was spent. Critics, including members of Congress, have pressed for a broader window into nonprofits. The new form is the response.

"The new form asks for about five times as much information," said Ken Berger, president of Charity Navigator, a watchdog group in Mahwah, N. J. "In the past, the focus was on financial. Now, it's on governance."

For instance, the new form asks about potential conflicts of interests among board members and key staff and whether the organization has written policies on conflicts of interest, whistle-blowers, and document retention and destruction.

It also asks detailed compensation questions, including what methods were used to determine compensation of CEOs.

Elsewhere, it asks whether there was any "material diversion of the organization's assets."

Don Kramer, a Philadelphia lawyer specializing in nonprofit law, said that question alone was significant.

"In the past, if an employee of a nonprofit was caught stealing, they often were fired, but not prosecuted," he said. "That meant they might go on and do it again someplace else. Now, you have to explain how you handled the situation."

The IRS does not require that policies it asks about be in place. The

practical result of the questions, however, is that nonprofits will feel pressure to adopt them.

"The form is going to prod organizations to do the right thing," said Eric Frait, president of Your Part-Time Controller, a Cherry Hill firm that provides financial services to nonprofits.

Elizabeth F. Pilacik, chair of nonprofit and tax-exempt services for the accounting firm of Asher & Co. Ltd., made the same point at a seminar last week on the new 990, sponsored by LaSalle University's Nonprofit Center.

"The 990 is such a important marketing tool," she said. "Donors look at it to see how your organization stacks up against other organizations. You want to put your best foot forward."

The value of 990s as a marketing tool can be measured by websites such as Charity Navigator (www.charitynavigator.org) and Guidestar (www.guidestar.org), which post 990s online.

Berger, of Charity Navigator, said his service had three million unique visitors last year; Robert Ottenhoff, president of Guidestar, reported four million.

"What we are hearing from donors is that they want to know about the capabilities of an organization," Ottenhoff said. "Is it capable of doing the things it says it will do?"

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