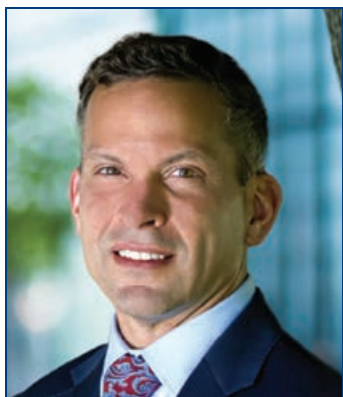




The Modernization of Banking



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Stories the Form 990 Tells That All Board Members Should Understand

Over the course of my career, I’ve had the privilege of working with a wide variety of nonprofit organizations and attending countless nonprofit board meetings. Something I have always appreciated about the Delaware nonprofit community is how different the governance of each organization can be. A small community-based organization may have a board made up primarily of volunteers who are deeply connected to its mission, while a larger organization may have a board consisting of business leaders, attorneys, bankers, and others with significant organizational and financial experience. Yet despite these differences, every nonprofit board shares an important responsibility: understanding and managing compliance risk associated with its tax-exempt status and ensuring the organization is serving as a responsible steward of the resources entrusted to it.

The IRS Form 990 is the primary way nonprofits communicate with the IRS and the general public. It provides a window into an organization’s activities, finances, governance, and compliance, offering stories that can help board members better understand the organization and identify areas of opportunity or risk.

Here are five important stories that the Form 990 tells that every nonprofit board member should understand.

1. The Story of Mission and Impact

Part III of Form 990 provides an opportunity for an organization to describe its significant program service accomplishments during the year and the impact of those activities. While financial statements tell a story through numbers, Part III allows an organization to tell its story in its own words. For prospective donors, grantors

and other stakeholders, a thoughtful description of programs and accomplishments can provide valuable context about how the organization is advancing its mission. For board members, it can also serve as a useful starting point for considering whether the organization’s program activities remain aligned with its mission and strategic priorities.

2. The Story of Public Support

Many nonprofits are classified as public charities rather than private foundations. That classification is not simply a designation that an organization receives once and keeps forever. Generally, a public charity must continue to satisfy applicable public support requirements over time. Schedule A of the Form 990 provides the IRS with information used to evaluate whether an organization continues to meet those requirements. Boards should understand where their organization’s funding comes from and recognize that significant shifts maintaining public charity status requires ongoing attention as a shift in funding sources can have significant implications for the organization’s public charity status.

3. The Story Behind Transactions With Interested Persons

Schedule L requires disclosure of certain transactions between the organization and interested persons, including officers, directors, key employees and certain related parties. One of the most common challenges with this section is that the information needed to complete it often does not reside entirely with the tax preparer. It requires collaboration between the organization and its tax advisor. Board members should understand the importance of identifying related-party transactions. It is an important component of good governance and maintaining the trust of stakeholders through transparency.

4. The Story of Governance and Policies

Part VI asks a series of questions about an organization's policies and governance practices, including conflicts of interest, whistleblower, compensation setting, and document retention. These provide the IRS with information about an organization's governance and compliance environment. The responses can serve as a risk indicator when the IRS evaluates an organization. Boards should understand whether the policies reported on the Form 990 exist, are current, and are being followed.

5. The Story of Financial Stewardship

For many third-party users of the Form 990, Part IX may be one of the most informative sections of the return. It shows how an organization allocates its expenses among program services, management and general activities, and fundraising. These numbers provide donors and other stakeholders with insight into how an organization uses its resources. While the percentage spent on programs should never be viewed as the sole measure of effectiveness, the overall functional allocation of expenses can provide an important perspective on financial stewardship and the organization's use of the resources entrusted to it. For board members, this information

can also provide a useful starting point for understanding spending trends and evaluating whether resources are aligned with strategic priorities.

The Form 990 is much more than an annual tax return. It provides a window into an organization's mission, finances, governance, and compliance and, when thoughtfully reviewed, can be a valuable tool for board oversight and strategic planning. In fact, the Form 990 asks whether the organization provided a complete copy of the return to each member of its governing body before it was filed with the IRS.

While nonprofit boards do not need to be composed of tax professionals, board members should be sufficiently familiar with the Form 990 to understand the stories it tells and to ask informed questions about what those stories reveal and, perhaps just as importantly, what they do not. A board that understands its Form 990 is better positioned to fulfill its fiduciary responsibilities, identify opportunities and risks, and help ensure the organization continues to advance its mission while earning the trust of the donors, grantors, employees and communities it serves.



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