

Philanthropy Corner – January 3, 2010

Article 48 - “The Number 1 New Year Resolution for Nonprofits”

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New Year’s resolutions are self-imposed commitments laced with hope and optimism. Many people use this time to pledge to reform a habit or set upon a lifestyle change that they interpret as advantageous. However, all too often, people end up abandoning their resolutions because their resolutions were based on wishful thinking and not created and supported by an effective plan of action.

Not resolving to make changes in 2010 isn’t a luxury that nonprofit organizations can afford this new year as few believe that 2010 will be a better year for philanthropy than 2009. Some people believe the nonprofit landscape may have been changed permanently and survival will require more than simply downsizing and hunkering down until things turn around again. The number one resolution for nonprofit boards to undertake in 2010 should be to resolve to put a plan into action to assess the effectiveness and efficiency of their organization by evaluating their governance practices and internal controls.

A major move toward transparency and accountability is unfolding in the nonprofit world. We have seen evidence of this in our own community. With increased public scrutiny and new IRS disclosure regulations, good governance through best practices has never been so important. Organizations that are prepared for this increased transparency will benefit, while those unprepared may experience damaging risks similar to many examples that occurred last year in our community.

Due to the size of the non-profit sector, magnitude of its assets, and impact on the economy, the IRS is focusing agency resources on enforcing compliance with standards of good governance. The new Form 990, which all nonprofit organizations will be required to file beginning 2009, has been transformed into an informative report to disclose key organizational and operating principles to assure transparency and accountability. The intended audience for the new Form 990 now includes the general public, specifically donors. The IRS is sending a message to potential donors that there is less risk of misuse of tax-exempt status and charitable assets in an organization that has adopted good governance practices.

The IRS states this increased emphasis on good governance should not be looked at as punitive action. Sarah Hall Ingram, the IRS commissioner for Tax Exempt and Government Entities said, “I think we all ... appreciate the special contribution the tax-exempt sector makes to the country. It is a vitally important sector that enjoys a privileged place not only in the tax code, but in our national psyche. We want the sector to do well. We need the sector to do well. We expect much of it.”

Much of the expectation and responsibility is being placed on the nonprofit board to actively and collectively ensure the organization implements good governance which the IRS defines as “an engaged, informed, and independent board; defined policies and practices; and transparency.” The IRS has identified a number of key principles of good governance that are now included in the Form 990: 1) mission; 2) organizational governance, including an annual internal review and reporting; 3) an informed and active board; 4) governance and management policies; 5) financial reporting; and 6) transparency and accountability through public accessibility to audits, tax filings, annual reports and

financial statements. Included in the report are 28 questions about the size and independence of the board, and seven governance and management policies, including executive compensation, conflict of interest policy, investment policy, fundraising policy, documentation of board meeting minutes, document retention and destruction policy, and a whistle blower policy.

It is not enough for nonprofit boards to simply be aware of these changes. They should consider the strategic implications these new reporting requirements have for their organization. At first glance, the task of evaluating organizational governance issues and policies may appear exhaustive and equally as discouraging as some personal new year's resolutions might be. But resolutions are simply a starting point that requires many steps to accomplish. The most important goal a nonprofit board can make in 2010 is to resolve to begin the process of evaluating their organization in order to implement best practices to meet good governance standards.

The Community Foundation's Center for NonProfit Excellence, in partnership with the Marion Stevens Fund, offers the Leadership Success Academy. It's a free, six session nonprofit training for board members starting in February that provides specific leadership and governance skill building to prepare organizations to meet the baseline expectations of good governance for nonprofit transparency and accountability. For an application and more information visit the cffk.org website.

A new year's resolution to serve our community more effectively and efficiently would be the best gift a nonprofit can give to itself and our community to begin 2010.