



A joint project of the Center for Civil Society Studies at the Johns Hopkins Institute for Policy Studies in cooperation with the Alliance for Children and Families, the Alliance for Nonprofit Management, the American Association of Homes and Services for the Aging, the American Association of Museums, the National Congress for Community Economic Development, the National Council of Nonprofit Associations, and the Theatre Communications Group

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Nonprofit Financial Disclosure

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Preliminary results from a survey distributed to hundreds of private, nonprofit, charitable organizations by the Johns Hopkins Nonprofit Listening Post Project during March 2005 reveal that substantial proportions of the country's nonprofit organizations are already utilizing most of the financial disclosure practices under review by the Senate Finance Committee to improve nonprofit governance and accountability.¹ More specifically, as part of a broader survey of nonprofit governance and accountability practices, the Listening Post survey revealed the following:

Financial Disclosure

- 1) The overwhelming majority (95 percent) of sampled nonprofit organizations regularly distribute financial statements to their Boards of Directors.
 - For 93 percent of these organizations, financial statements are distributed to the Board at least quarterly;
 - For 62 percent of them, the statements are distributed to the Board every month.
- 2) In addition to circulating their financial statements to their Boards, sizable proportions of the organizations also:
 - Make their financial reports available for public review upon request (74 percent);
 - Distribute their financial reports to their funders (70 percent); and
 - Publish their financial statements in their annual reports (54 percent).
- 3) Interestingly, only 9 percent of the organizations reported posting their financial statements on the organization's web site.

Audits

- 1) The overwhelming majority (97 percent) of the surveyed organizations reported having undergone an independent audit at some point over the previous two years.

- This was the case even though only 40 percent of the organizations reported being aware of a state requirement to be audited; and
 - Only 32 percent of the organizations reported having been audited by a federal or state regulator over the past five years.
- 2) Substantial numbers of these organizations reported taking meaningful action as a consequence of these audits. Thus:
- 53 percent reported adding or strengthening internal management controls;
 - 32 percent reported adding or strengthening financial reporting;
 - 25 percent reported adding or strengthening asset or cash management procedures;
 - 12 percent reported adding or strengthening purchasing procedures or personnel policies.
- 3) Substantial numbers (57 percent) of the responding organizations reported having a Board committee devoted to the audit function, and another 14 percent of the organizations reported that they were considering creating such an audit committee. Other organizations may assign the audit function to a broader Finance Committee, however.
- Almost all (95 percent) of the organizations with an audit committee of the Board reported having a “financial expert” on this committee.
 - Even higher proportions of the organizations with audit committees (99 percent) reported that these committees were independent, i.e., they receive no fees.
- 4) In one of the few departures from practice that has been recommended for private corporations under the Sarbanes-Oxley law, only about a third (34 percent) of the organizations reported having changed their audit firm in the past five years. However, another 11 percent reported they were currently considering making it a policy to do so.

Form 990

Except for religious organizations, all nonprofit organizations with expenditures in excess of \$25,000 are required to file an information return (Form 990) with the Internal Revenue Service. A Senate Finance Committee Staff Paper has raised a number of questions about the diligence and precision with which nonprofit organizations complete these required forms and about the seriousness with which they take the Form 990 filing. It has also suggested that the 990 form be broadened to capture nonprofit performance and not simply finances. The Listening Post Governance and Accountability survey makes it possible to shed some useful empirical light on these issues. In particular:

- 1) The vast majority (81 percent) of Form 990s are signed by either organizations’ chief executives (73 percent) or their Board chairs (8 percent). This is consistent with the recommendation embodied in the Sarbanes-Oxley law for the financial reports of private companies.
- 2) Most (65 percent) surveyed nonprofit organizations relied on external consultants or firms to complete their Form 990 in the past year.

- Of those organizations that relied on an external consultant or firm, the majority (64 percent) paid market price for the service;
 - However, 36 percent of the organizations secured this service at a reduced price, and 2 percent of these received it for free.
- 3) A little over one-third of the surveyed organizations (37 percent) reported taking advantage of the available automatic three-month extension to file their Form 990 last year, and 8 percent of these also filed for an additional three-month filing extension. By comparison, Internal Revenue Service records show that over half of for-profit firms (54 percent) claimed the automatic tax filing extension last year.
- The major reason for seeking a filing extension on the part of nonprofits was external—either a problem or setback with the external consultant (54 percent) or a failure on the part of a third party to provide some needed information. The fact that a third of the organizations get a reduced rate on their 990 work may explain this in part;
 - Only 37 percent of the organizations indicated that the delay was caused by a problem internal to the organization.
- 4) Only 10 percent of nonprofit executives support utilizing the 990 form to capture performance data. By contrast, 69 percent oppose this idea and another 21 percent are not sure.

Of those who oppose this idea:

- 82 percent simply think it is an inappropriate use of a tax form;
- 67 percent think the information is too subjective;
- 48 percent worry that it is unworkable because they have too many programs; and
- 36 percent feel it is too hard to derive valid performance measures for the work they do.

Variations by Field and Size Class

Interestingly, most of the findings reported here applied fairly uniformly among organizations of varying sizes and across the five fields of nonprofit activity on which this survey focused (family and children's services, elderly services and housing, community and economic development, museums, and theaters). Especially notable in this regard were the following:

- 1) Organizations of all size classes were overwhelmingly likely to have undergone an audit in the previous two years (79 percent of the organizations with expenditures under \$500,00 compared with 100 percent of those with expenditures over \$3 million);
- 2) Organizations of all size classes and in all fields were almost equally likely to keep their Boards and funders regularly informed of their financial condition, though the smaller organizations were slightly more likely to do this on a quarterly rather than a monthly basis.

At the same time, a few variations were apparent. Thus:

- 1) State audit requirements were considerably more in evidence for the large organizations (50 percent) as opposed to the small ones (13 percent). This makes the relatively high prevalence of audits among the smaller organizations all the more notable;
- 2) Larger organizations were also more likely than the smaller ones to have special Board audit committees (69 percent vs. 29 percent);
- 3) Interestingly, reliance on outside firms to complete the Form 990 was more common among the smaller organizations than the larger ones. When the larger organizations turned to outside firms, moreover, they were more likely to pay the market price;
- 4) Museums and elderly service organizations were less likely to secure an extension to file their 990 forms than the other types of organizations.

More complete results of the Listening Post Governance and Accountability Survey focusing on Board functions and governance, performance standards, and accountability provisions will be issued in subsequent Listening Post Project Communiqués. These Communiqués will be available on the Listening Post Project web site: www.jhu.edu/listeningpost.

For more information about the Listening Post Project, or to comment on the findings, contact us at: ListeningPostProject@jhu.edu

The Listening Post Project is a collaborative undertaking of the Center for Civil Society Studies at the Johns Hopkins Institute for Policy Studies and the partner organizations listed at the top of this Communiqué. The Project seeks to monitor the health of the nation's nonprofit organizations, to assess the impact on these organizations of important economic and policy changes, to identify promising responses, and to disseminate the results to practitioners, policymakers, researchers, and the public at large. Support for the project has been provided by the Carnegie Corporation of New York, the Ewing Marion Kauffman Foundation, the Rockefeller Brothers Fund, and the Surdna Foundation. The findings and interpretations presented here are those of the author and not necessarily those of any other individual or organization associated with this project.

¹ Surveys were distributed via the Internet to 443 organizations selected with the aid of five project partner organizations and to another 162 organizations in the same fields selected randomly from lists gleaned from the Internal Revenue Service's Exempt Organization Master File. Of the 443 directed sample of organizations, 207 responded, for a response rate of 46 percent, quite good for work of this sort. Of the randomly selected sample of organizations, 40 responded, for a response rate of 25 percent. For the purpose of this preliminary report, only the directed sample responses are reported.