

Panel on the Nonprofit Sector

Convened by INDEPENDENT SECTOR

Work Group Recommendations to the Panel on the Nonprofit Sector Posted for Public Comment January 24, 2005

#7: Public Disclosure of Financial Statements

I. Transparency and Financial Accountability Work Group Recommendations

A. Statement of Problem

Audited financial statements can provide helpful information to regulators and the public, as well as to organization managers. Some states require charities of a certain size or those that solicit funds from the public to file audited financial statements with a copy of their Form 990 or other state reporting forms (with certain exceptions). In all of these states, the financial statements are made available to the public at the state charity offices.¹ Public charities and private foundations may post their financial statements on GuideStar, and a few states make financial statements available on the website of the state charity office. Currently, there is no federal requirement that nonprofit organizations disclose financial statements.

B. Recommendations

1. Public charities and foundations that are required by law to have audited financial statements should also be required to file their financial statements with the Form 990 or 990-PF and to make those statements available for public inspection in the same manner as the Form 990 (most recent three years). The financial statements should include, at a minimum, the balance sheets, cash flow statements, statements of activities, and footnotes.
2. Congress should provide financial support for a publicly accessible database of current Form 990 series documents and accompanying financial statements.

C. Rationale

Charitable organizations are currently required to make their annual information returns (the Form 990 series) available to the public for a period of three years at the organization's principal and regional or district offices during regular business hours; and by mail upon personal or written request, or by posting on the organization's own website or on the Internet. Requiring charitable organizations to make their audited financial statements available on the same basis will provide the public with additional, reliable information by which to monitor such organizations.

¹ Marion Fremont-Smith, *Governing Nonprofit Organizations: Federal and State Law and Regulation*, pp. 458.

Note: These recommendations have not yet been reviewed by the Panel on the Nonprofit Sector. They will be part of the deliberations by the Panel as it prepares its interim report.

D. Other Considerations

The Work Group noted that tax returns are frequently prepared by staff or outside tax preparers, rather than the organization's auditors. Proposals to require an organization's auditors to review and certify the Form 990 returns for conformity would require additional costs that could be prohibitive for smaller organizations.

II. Expert Advisory Group Comments

The Expert Advisory Group agrees that disclosure of audited financial statements would support greater transparency for sector organizations and supports the principle of government support for public access through the Internet to reports of public charities and private foundations.

The Expert Advisory Group requests that the Work Group address in Phase II the issue of requiring public charities and private foundations to file and make publicly available amended returns when an organization discovers substantial errors on its return.