Nonprofit Governance - What You Don’t Know Can Hurt Your Organization

Nonprofit governance has become an issue of increasing scrutiny in recent years; both by the IRS and potential donors. Part VI of the redesigned Form 990 contains numerous questions regarding an organization's governance, management and required disclosures.

Federal law generally does not mandate specific management structures, operational policies, or administrative practices. However, all organizations filing the full Form 990 are required to answer every question in Part VI. Section B of Part VI specifically states that the policies inquired about in this section are not required by the Internal Revenue Code. Nonetheless, the IRS does consider these policies “best practices” for nonprofit organizations.

Before the end of your organization’s tax year, the personnel responsible for designing and implementing policies should meet to determine if all the policies requested in Part VI of the Form 990 are in place. If they are not in place on the last day of the tax year, the organization must answer “No” when asked if the organization has that policy. If this is the case, the organization may choose to add a narrative on Schedule O related to that particular question explaining why the organization does not feel that policy is necessary in their case, or to say that the policy is in development and state an expected implementation date.

Two policies in Section B are legally required by the State of Texas, although not by Internal Revenue Code. These are the whistleblower and the document retention/destruction policies. If your organization does not currently have these in place, you need to work towards implementing these before your current tax year ends.

To view the governance section of the redesigned Form 990 click here and scroll to page 6.

Our 990 experts are ready to help you put the recommended policies and procedures in place. Give us a call!

Sincerely,

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P.S. The IRS is providing a series of filing tips to help tax-exempt organizations and tax practitioners as they prepare to file the redesigned 2008 Form 990. The latest tip explains how to complete Part VI, relating to governance. Click here to read more.