

Is Your Financial Information Online?

By Marie Blouin & Roderick Lee

If not, you may be missing some crucial opportunities.

The IRS requires nonprofits to make their Form 1023, Form 990, and Form 990-T publicly available. One of the best ways to do so is to disclose this information online. Many watchdog organizations and regulatory agencies have urged nonprofits to make such Web disclosures.

“Only 3% of nonprofits posted IRS Letters of Determination.”

But, despite this longstanding advice, a recent content analysis of 117 community foundation Web sites revealed that only 62% posted financial statements and 13% posted an IRS 990.¹ Similarly, an examination of 1,769 nonprofit Web sites revealed that only 43% posted annual reports, 13% posted audited financial statements, and 3% posted IRS Letters of Determination.²

Why Does It Matter?

Recent research has yielded useful guidance on why and how your organization should disclose on the Web. Here are some of the main benefits online disclosure might bring to your organization:

- **You can build people's trust.** Web disclosure is increasingly being recognized as a tool to improve transparency, accountability, and public trust.
- **You may see increased donations.** According to recent research, organizations that disclose online receive more donations.³ Additionally, those strong financial performance indicators you've been working so hard to achieve are more strongly associated with donations when people can read about them on your Web site.⁴
- **You want to set yourself apart from the crowd.** Given the low disclosure rates mentioned above, providing financial statements online can truly differentiate your organization.

Moreover, potential donors and other users may assume the worst about your performance if you disclose nothing at all. Even if your organization's administrative expenses are a little higher than you'd like or you would rather keep the CEO's salary out of the public eye, you may be better off disclosing such facts to distinguish your organization from those that don't disclose anything at all because they have something worse to hide.

- **You'll fulfill the IRS requirement that your Form 990 (and other documentation) be available for public inspection.** Once you've made your financial data available on your Web site, you can check the "Own Web site" box on the Form 990, Part IV, line 18, and you'll minimize future time spent responding to requests for copies.
- **Forthright disclosure is consistent with your mission and an added service to your donors and clients.** It lets donors know that you've been a good steward of your organization's resources. It holds your leadership accountable to your donors and those served.

What Should You Disclose Online?

Use the following best practices about what information you should post online:

“Organizations that disclose online receive more donations.”

¹ Saxton, Gregory D., Daniel G. Neely, & Chao Guo, "Web Disclosure and the Market for Charitable Contributions," *Working Paper Series*, <http://ssrn.com/abstract=1912966>

² GuideStar, "The State of Nonprofit Transparency," *Voluntary Disclosure Practices*, <http://publications.guidestar.org/blog/2009/03/17/transparency/>

“Potential donors may assume the worst if you disclose nothing at all.”

- **If you produce an annual report, add it to your Web site.** You’ve already done the hard work of preparing the report; the next step is to make it easily accessible to interested users.
- **Post general information regarding your organization’s vision and mission, along with an easy way for people to get in touch.** It’s important to provide a clear and concise mission statement and vision to inform the public of your organization’s purpose.
- **Regularly update your Web site with detailed program and service information.** This information should contain the frequency of offerings, any costs associated, and how to enroll in the program or service. Also, include performance outcomes and broader community impacts.
- **List the names of board and staff members, along with brief biographical and contact information.** Listing board members provides information on who is governing the organization, while staff members’ names let people know who manages the organization and oversees the delivery of programs and services. Be sure the list of board members includes their position, affiliation, and the unique skills each one brings to bear on your mission.
- **Provide financial statements (audited if possible) and IRS forms,** including Forms 1023, 990 and 990-T.
- **Add the IRS Letter of Determination.** Donors are interested in confirming that the organization is tax exempt. The IRS Letter of Determination authenticates your organization’s tax-exempt status.


How Should You Present the Information?

Use these guidelines on how to make your financial information available in the most effective way:

- **Display information in a readily identifiable format.** Sophisticated users should be familiar with the Form 990 and a standard set of nonprofit financials that includes an income statement and a balance sheet. If possible, present both of these formats so users can easily compare your organization with others.
- **Consider an executive summary.** For less sophisticated users, a summary highlighting important financial statistics and a brief explanation of their meaning may be more useful than the presentation of formal financial statements. This is an ideal place to brag about positive financial outcomes (“Our administrative expenses have dropped to 5% of our total expenses”), explain less desirable results (“Our capital expenditures are high due to much-needed maintenance on the buildings where we provide services”), and appeal to donors by highlighting needs in your operating budget (“With

your support we can replace outdated equipment and reduce maintenance expenses”).

- **Keep your disclosures readable.** If users can’t easily understand the information you’re providing, it ceases to be useful. For help with stylistic elements of clear writing, see the SEC’s “Plain English Handbook” (www.sec.gov/pdf/handbook.pdf). To improve readability of your statements:
 - **Use tables** instead of text whenever possible.
 - **Simplify complex topics** such as fair value disclosures.
 - **Eliminate** redundant disclosures.
 - **Take advantage of your auditors’ experience** to incorporate best practices in your disclosures.
- **Use meaningful names for your Web site’s navigation structure.** Select names that make it clear what content users will find. It’s best to stick to obvious names such as About Us, Contact Us, Staff, and Governance.

Web disclosure is an incredibly useful way to improve transparency and accountability. Providing financial and governance information in a clear, concise manner on an easily navigable Web site will make your organization a positive example of what transparency means in the nonprofit world and yield benefits for years to come. 

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ADDITIONAL REFERENCES

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U.S. Senate, “Exempt Status Reform: Staff Discussion Draft,” 1 - 19, <http://www.finance.senate.gov/imo/media/doc/062204stfdis.pdf>

³ Saxton, Gregory D., Jenn-Shyong Kuo, & Yi-Cheng Ho, “The Determinants of Voluntary Financial Disclosure by Nonprofit Organizations,” *Nonprofit and Voluntary Sector Quarterly*.

⁴ Blouin, Marie C. and Roderick L. Lee, “Does Web Disclosure of Financials Change Their Impact on Donations to Nonprofits?”, *Working Paper*.

