Financial Transparency

As tax-exempt “public charities,” charitable nonprofits embrace the values of accountability and transparency as a matter of ethical leadership, as well as legal compliance. Leaders of charitable nonprofits know that **financial transparency** will help preserve the very-important trust each donor places in a nonprofit with each contribution. Additionally, and no less importantly, conduct that is accountable and transparent earns employees’ trust and creates a positive workplace culture. Earning trust through financial transparency and accountability goes beyond what the law requires, but let’s start there: Nonprofits are required to disclose certain financial information to the public upon request; board members have access to financial information in order to fulfill their fiduciary duty to the nonprofit.

**What must a nonprofit disclose to the public?**

Tax-exempt nonprofits are required, upon request, to provide copies of the three most recently filed annual information returns (IRS Form 990) and the organization’s application for tax-exemption (which includes correspondence between the organization and the IRS related to the application). To demonstrate a commitment to transparency and to make it easier for those seeking financial information to view these documents, many charitable nonprofits post these documents from a link on their websites.


**Ten additional ways nonprofits can demonstrate financial transparency**

1. Be honest in solicitation materials and truthful and clear in communications with donors about how their gifts will be or have been used. (Read about [ethical practices in fundraising](https://www.councilofnonprofits.org/trends-and-topics/ethical-practices-in-fundraising).)
2. Adopt a [conflict of interest policy](https://www.councilofnonprofits.org/trends-and-topics/conflict-of-interest-policy) with a disclosure statement that all board and staff review annually.
3. Adopt an [executive compensation policy](https://www.councilofnonprofits.org/trends-and-topics/executive-compensation-policy) to ensure that the full board is aware of, and approves, the compensation of the executive director/CEO.
4. Ensure that the board of directors reviews timely financial reports and also reviews the [IRS Form 990](https://www.irs.gov/charities-and-non-profits/charities-and-non-profits-990-exam-filing) prior to filing.
5. Adopt sound [financial management policies, including internal controls](https://www.councilofnonprofits.org/trends-and-topics/financial-management-policies), to ensure accountability.
6. Be clear about who is accountable for the nonprofit’s expenditures by adopting expense policies, such as a [travel expense reimbursement policy](https://www.councilofnonprofits.org/trends-and-topics/travel-expense-reimbursement-policy) (requiring prior approval and limiting expenditures to what is reasonable.)
7. Be candid about the tax-exempt status of the nonprofit on the organization’s website.
8. Be candid also about who is on the board of directors by publishing a list of names on the organization’s website.
9. Post financial information on the nonprofit’s website, such as a copy of the organization’s recent IRS Form 990, audited financial statements and annual reports, as applicable.

**Complaints about nonprofits’ financial conduct**

Each state has a “[state charity official](https://www.councilofnonprofits.org/trends-and-topics/state-charity-official)” who is authorized to investigate financial improprieties in connection with charitable nonprofits. Many nonprofits adopt internal complaint procedures that offer “whistleblowers” protection from retaliation if they come forward with concerns about a nonprofit’s financial management.

- [Where to find copies of scanned IRS returns for charitable nonprofits](https://www.councilofnonprofits.org/trends-and-topics/where-to-find-copies-of-scanned-irs-returns-for-charitable-nonprofits) (IRS)
- Adopting an internal complaint procedure for staff and volunteers, such as a [whistleblower policy](https://www.councilofnonprofits.org/trends-and-topics/whistleblower-policy), is a way that charitable nonprofits can demonstrate a commitment to accountability and financial transparency, while at the same time creating a safe space for staff and board to raise concerns internally, so that the nonprofit can be aware, and address the concerns, as
Resources

- Public disclosure requirements for nonprofits [13] (Council of Nonprofits)
- Many state associations of nonprofits promote ethical guidelines and "best practices" programs [14], that include specific guidance on financial transparency.
- FAQs about exempt organization public disclosure requirements [9] (IRS)
- Get the Facts: 990 Disclosure Rules [15](GuideStar)
- Transparency can keep a nonprofit out of trouble [16] (Chronicle of Philanthropy)
- Beyond Financial Oversight: Expanding the Board's Role in Pursuit of Financial Sustainability [17](Nonprofit Quarterly)
- Use an on-line tutorial [18] from the IRS to teach your board or staff about the IRS public disclosure regulations
- Sample public disclosure policy [19] (Public Counsel Law Center)
- Finding the Right Transparency [20] posted in the Nonprofit Law Blog goes beyond legal requirements and explores ideas for using social media and the internet as transparency tools, and also shares several other helpful resources on transparency.
- Why your nonprofit should have a financials page on its website (Wired Impact) [21]

Tags: Accountability [22]
  Transparency [23]
  financial management [24]
  Ethics [25]
  Ethical [26]
  Financial Policies [27]
  Document Retention [28]
  Whistleblower [29]
  Executive Compensation [30]

Source URL: https://www.councilofnonprofits.org/tools-resources/financial-transparency

Links
[22] https://www.councilofnonprofits.org/tools-resources-tags/accountability
[23] https://www.councilofnonprofits.org/tools-resources-tags/transparency
[26] https://www.councilofnonprofits.org/tools-resources-tags/ethical
[27] https://www.councilofnonprofits.org/tools-resources-tags/financial-policies