



## **Analyzing and Interpreting Non-Profit Financial Statements**

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- Introduce ratio analysis
- Introduce vertical and horizontal analysis
- Perspectives of:
  - a) Individual donors
  - b) Foundations

## **Analyzing and Interpreting Non-Profit Financial Statements**

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- Ratio analysis
  - a) Liquidity and solvency
  - b) Profitability and efficiency
- Vertical analysis—analyze line items as a % of a common base (e.g., total support and revenues)
- Horizontal analysis—analyze year to year/period to period changes in line items

## **Understand Your Organization's Funding Sources - and the Related Risks!**

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- Why is this important?
- Who are your organization's major funders?
- What are the "risks" to your organization as a result of your funders?

**Analyzing and Interpreting Non-Profit  
Financial Statements—In-Class  
Exercise**

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- Participants will “analyze” a sample financial statement for a non-profit organization by performing some ratio analysis, etc. and make observations on its financial strength and operating effectiveness.



## **Introduction to the Non-Profit Tax Return—Form 990**

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### Background and purpose

- Form 990 was updated in 2008 (effective in 2009 and 2010); first major update since 1979!
- The “990” serves several key purposes, including:
  - a) Regulation of the tax-exempt sector
  - b) Providing better and more transparent public information

## **Introduction to the Non-Profit Tax Return—Form 990**

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### Filing requirements

- Based on gross receipts and total assets test
- Three possible forms of the 990, depending on outcome of gross receipts and total assets test
  - a) Form 990-N, Electronic Notice (e-Postcard)
  - b) Form 990-EZ, Short Form Return of an Organization Exempt from Income Tax
  - c) Form 990, Return of an Organization Exempt from Income Tax



## **Introduction to the Non-Profit Tax Return—Form 990—Filing Requirements**

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<u>Gross Receipts</u>	<u>and Gross Assets</u>	<u>Form</u>
\$50,000 or less*	n/a	990-N
\$50,000 to \$200,000	< \$500,000	990-EZ
> \$200,000	> \$500,000	990

\*Years ending on or after 12/31/10

Due date of return: 15<sup>th</sup> day of fifth month after end of the fiscal year.

## **Introduction to the Non-Profit Tax Return—Form 990**

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### Structure of the Form 990

- Twelve page core form and 16 schedules
- Part I of the core form is the *Summary*, and requires a snapshot of information to be included elsewhere in the form
- Part IV of the core form is a *Checklist of Required Schedules*, used to determine which schedules (of the 16) the organization must file
- The 16 schedules focus on areas of particular interest to either IRS or the general public

## **Introduction to the Non-Profit Tax Return—Form 990**

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Generally, filers will have to complete:

- Schedule A—Public Charity Status (very important for many non-profit organizations!)
- Schedule B—Contributors
- Schedule D—Supplemental Financial Statements
- Other schedules—dependent on the organization's activities

## **Introduction to the Non-Profit Tax Return—Form 990**

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### Areas of focus in the Form 990

- A. Governance (Part VI)—requires information about the governing body, management, policies and disclosure practices
  - 1. Interestingly, not required by tax law! This is an attempt by the IRS to present areas of focus or to encourage “behavior modification”
  - 2. Examples: Questions regarding conflict of interest, whistleblower policies, records retention, review of the 990 before filing, etc.

## **Introduction to the Non-Profit Tax Return—Form 990**

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Areas of focus:

B. Compensation of officers, directors, key employees  
(Part VII)

1. Must disclose compensation for current officers and directors, as well as for the 5 highest compensated employees
2. Must also include average number of hours worked by individuals

## **Introduction to the Non-Profit Tax Return—Form 990**

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Areas of focus:

C. Financial Information (Parts VIII, IX, X and XI) includes information from the financial statements. Also includes questions regarding audits, etc.

D. Public Charity Status and Public Support Test (Schedule A)—organization must receive at least 33 1/3% of its support from contributions, etc. related to its exempt functions

## **Introduction to the Non-Profit Tax Return—Form 990**

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Areas of focus:

E. Schedule B—Contributors (donating > \$5,000) must be separately reported

F. Schedule C—Political Campaigns and Lobbying Activities. Monitors amounts related to these efforts (there are specific limits on amounts used for lobbying)

## **Introduction to the Non-Profit Tax Return—Form 990**

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Other areas:

G. Schedule O—used specifically to provide supplemental information to questions in Part IV of the core form (Checklist of Required Schedules)

H. Schedule M—Non-Cash Contributions—used to report non-cash contributions (excluding donated services). Required to report quantity and reported financial statement amount of non-cash contributions received



## **Introduction to the Non-Profit Tax Return—Form 990**

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Review with participants an example of a completed copy of Form 990 for a non-profit organization.

# Nonprofit Governance and Oversight

## Who's minding the organization?

Financial Statements and the Form 990  
Presented to: Meals On Wheels Association of America  
Presented by: John Murphy and Tia Wade  
Date: February 4, 2011



Bank of America Corporation

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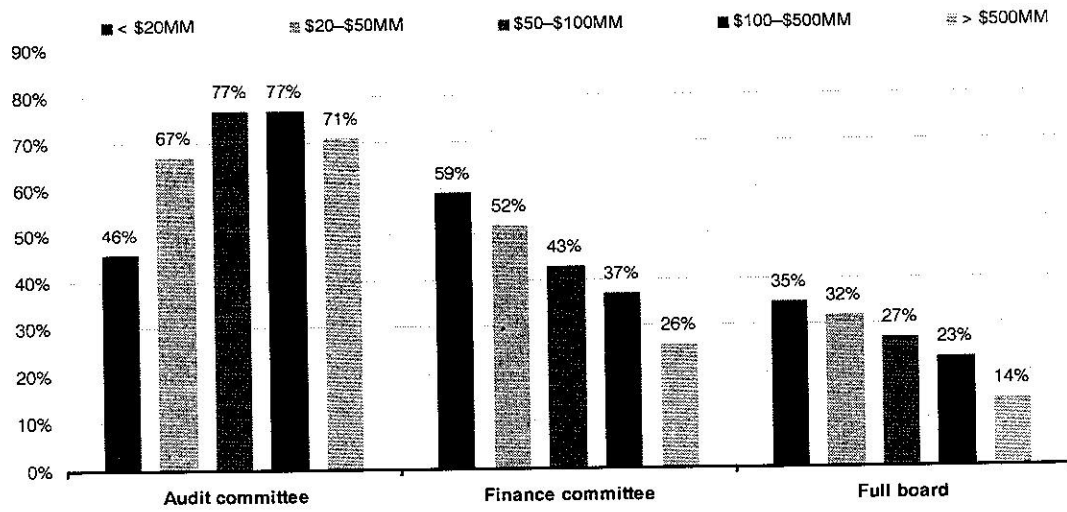


# Reporting

## Financial statements

- **Some organizations use no outside accountants or auditors**
- **For others, outside auditors prepare compiled or reviewed financial statements**
- **Still others obtain audited financial statements**
  - State law may impose audit requirements for certain nonprofit organizations
  - Organizations that receive federal funds
    - Single Audit Act
    - OMB Circular A-133
- **Consider having an independent audit**
  - Excellent way to account to the public
  - Good defense if selected for an IRS audit
- **Certify statements**
  - CEO and CFO should sign off formally or informally
  - Board should review and approve financial statements and Form 990

# Who reviews your Form 990?



2008 National Board Governance Survey for Not-for-Profit Organizations, Grant Thornton

## Duties of an audit committee

- **Oversee the establishment and implementation of appropriate accounting policies and internal controls**
- **Assess the business risks of the organization and determine whether the organization is planning adequately for those risks**
- **Monitor the roles of the board, management and internal and external auditors to ensure the organization is following good financial governance practices**
- **Select and monitor internal and external auditors**

## Audit committee members

- Professionals who understand the fundamental principles of
  - Auditing
  - Financial reporting
  - Internal controls

### Audit committee composition (% of organizations having member)

Profession	Size of organization's budget				
	<\$20M	\$20 to \$50M	\$50 to \$100M	\$100 to \$500M	>\$500M
CPA	67%	58%	67%	69%	72%
Banker	40%	33%	51%	35%	57%
Attorney	37%	43%	54%	40%	61%
Other business executive	80%	80%	82%	87%	89%

2008 National Board Governance Survey for Not-for-Profit Organizations, Grant Thornton



## Audit results

- **Engagement letter**
  - Services to be provided
  - Standards that will be used
  - Staff's responsibilities in providing supporting information
  - Fees
  - Timetable
- **Confirmation letters to outside parties**
- **Management representation letter**
  - Acknowledges that the financial statements are the responsibility of the organization's management
  - Affirms the organization has provided all relevant information
  - May include a list of specific information provided

## Audit results

- **Audit report**

- Identifies the audited statements
- States that the financial statements are the responsibility of nonprofit management
- Identifies standards and basis used
- States the auditors opinion on how well statements present the organization's financial position, operations and cash flows

- **Recommendations**

- Spot inefficiencies in operations
- Suggest new technologies

## Form 990

- **New version requires much more disclosure**
  - Phased in over a three-year transition period
  - Filing requirement depends on financial activity
- **Answering “no” to too many of the questions could be viewed as an indication the organization has inadequate governance practices**
- **Could impact contributions, government contracts and other aspects of the organization’s operations**

## Form 990: policies and procedures

Policy, procedure or practice	Description required	Core form or schedule
Meetings of governing body and committees documented	No	Core
Form 990 review process	Yes	Core
Conflict of interest policy and annual update	No	Core
Conflict of interest monitoring procedures	Yes	Core
Whistleblower policy	No	Core
Document retention and destruction policy	No	Core
Compensation policy and practices	Yes	Core
Joint venture participation policy	No	Core
Public disclosure of documents policy	Yes	Core
Financial statements compiled, reviewed or audited by an independent accountant	No	Core

IRS Form 990, "Return of Organization Exempt from Income Tax"

## Form 990: policies and procedures

Policy, procedure or practice	Description required	Core form or schedule
A committee assumes responsibility for audit, review or compilation and selection of independent accountant	No	Core
Donor-advised fund practices	No	Schedule D
Conservation easement practices	Yes	Schedule D
Written or oral agreements with any individual (including officers, directors, trustees or key employees) or entity in connection with professional fundraising activities	Yes	Schedule G
Compensation of CEO/executive director (methods used to set)	No	Schedule J
Written policy for certain fringe benefits	For "no" answers only	Schedule J
Gift acceptance policy	No	Schedule M

IRS Form 990, "Return of Organization Exempt from Income Tax"

## Transparency and accountability

## Internal Revenue Code requirements

- Form 1023
- Form 990
- Form 990-T
- Must be made available for public inspection

## Go a step further

- **Post reports on your website**
  - Form 1023 exemption application
  - Form 990
  - Form 990-T
  - Annual reports
  - Financial statements
- **And make them available on request**



## How you can benefit

- Support
- Greater disclosure and transparency result in more accountability
- Disclosure and transparency provide an opportunity to market to potential donors
- Potential donors can conduct due diligence and research before contributing
- Self-regulation and proactive behavior will help protect and build donor trust

# Organizational Assessment

## Governance Checklist



### PHILANTHROPIC MANAGEMENT

Every nonprofit organization should have a strategic plan to minimize fiduciary risk, and that includes strong and effective governance documents. This easy-to-use risk assessment tool will help your organization identify any exposure you may have in your documentation and help you to prioritize areas of focus.

Once your organization has completed the documentation assessment using this tool, you will have both a critical evaluation of your document preparedness and a road map toward reducing your risk exposure.

For each item, please make a check mark (✓) in the most applicable response column.

Investment policy statement	Document is current and available	Document is out of date	No document available	Not required for our organization
Define general objectives				
Delegate asset management responsibilities to committee or professional managers				
Set asset allocation parameters				
Describe asset quality				
Define the investment manager's accountability				
Provide for regular review of the policy				
Monitoring guidelines				
Specific duties of service providers				

Spending policy	Document is current and available	Document is out of date	No document available	Not required for our organization
Follow approved spending calculation				
Variations to rate are approved by board				

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Investment products:

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<b>Gift acceptance policy</b>	<b>Document is current and available</b>	<b>Document is out of date</b>	<b>No document available</b>	<b>Not required for our organization</b>
Define the types of assets the organization will accept				
List gift forms that are acceptable				
Define the organization's role in administering gifts				
Specify limits you may want to impose				
Detail the types of restrictions donors can place on gifts				
Outline donor responsibility with respect to appraisals for tax purposes				

<b>Conflict of interest policy</b>	<b>Document is current and available</b>	<b>Document is out of date</b>	<b>No document available</b>	<b>Not required for our organization</b>
Written procedures for determining whether a relationship, financial interest or business affiliation is a conflict of interest				
Course of action to take if a conflict is identified				
Requirement that those covered periodically disclose in writing any known financial interest the individual, or a member of the individual's family, has in any company that does business with the organization				

<b>Executive compensation policy</b>	<b>Document is current and available</b>	<b>Document is out of date</b>	<b>No document available</b>	<b>Not required for our organization</b>
Decision-makers are free of conflicts of interest				
Reasonable compensation is determined using appropriate comparable data				
Board has adequately documented the basis for its determination				

<b>Fundraising policy</b>	<b>Document is current and available</b>	<b>Document is out of date</b>	<b>No document available</b>	<b>Not required for our organization</b>
Ensure solicitations meet federal and state law requirements				
Solicitation materials are accurate, truthful and candid				
Fundraising vendor costs are not excessive				
Gift acknowledgements are Form 8283-compliant				

continued

<b>Document retention and destruction policy</b>	<b>Document is current and available</b>	<b>Document is out of date</b>	<b>No document available</b>	<b>Not required for our organization</b>
Clearly identified permanent and 7-year retention requirements				
Access and storage processes documented				
Secure disposal processes				
Able to execute on voicemail and electronic mail guidelines				

<b>Code of ethics</b>	<b>Document is current and available</b>	<b>Document is out of date</b>	<b>No document available</b>	<b>Not required for our organization</b>
Governing body responsible for setting ethical standards				
Code built on the values that the organization embraces				
Outline the practices and behaviors that staff, board members and volunteers agree to follow				
Orientation sessions for new board and staff members and volunteers should include a discussion of the code				

<b>Whistleblower protection policy</b>	<b>Document is current and available</b>	<b>Document is out of date</b>	<b>No document available</b>	<b>Not required for our organization</b>
Procedure for staff, volunteers and clients to report suspected wrongdoing without fear of retribution				
Specifies to whom to report information				
Stipulates that there will be no retaliation against reporting individual				
Exception for false reports made with intent to harm the organization or an individual within the organization				

Thank you for your responses.

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# Ready for the world to see your charity in hi-def?

The IRS Form 990

Bank of America  
Merrill Lynch 

Philanthropic Management

Second Quarter 2010

Although all public charities filed the newly redesigned IRS Form 990 last year, many organizations may have underestimated its significance. The IRS's primary goal in redesigning the form was to encourage greater transparency. The primary effect for public charities, however, is better governance.

"The new Form 990 is a public charity's annual report," says Chester Sterczek, Vice President, Client Support at Bank of America Merrill Lynch. It captures an in-depth picture of how a public charity is run and puts it up for public inspection, so that anyone seeking to research the organization — online or offline — can do so.

Completing Form 990 can be as all-consuming for public charities as annual reports are for publicly traded companies. But this exercise could be one of the biggest boons to a public charity's operations, fundraising efforts, and overall reputation.

## An annual consultation on good governance

IRS Form 990 is longer, more detailed, and more work than ever. What began 60 years ago as a two-page form is now a multi-page document: 12 pages for the form itself and additional pages for charity-specific schedules.<sup>1</sup>

But completing the form doesn't have to be painful or inconvenient. In fact, it can be one of the most beneficial activities an organization undertakes all year.

## Keeping public charities on a path to success

At its most basic level, Form 990 can keep organizations on track. "It helps charities ensure their programs are consistent with their missions and that they have their policies and procedures in place," says Sterczek.

## Executive Summary:

The redesigned IRS Form 990 is more than just a public charity's annual report. Bank of America Merrill Lynch believes it's an essential tool for helping organizations apply the latest principles of good governance, by:

- Confirming and focusing on the mission
- Compensating key personnel fairly and consistently
- Avoiding conflicts of interest
- Increasing transparency

To help public charities get the most out of the Form's changes, we detail four areas of best practices — **assessing, preparing, educating, and allying** with a third-party provider.

<sup>1</sup> Smaller charities file the much shorter Form 990-EZ if they meet certain levels of assets and gross receipts.

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## Philanthropic Management

Donald Greene, National Philanthropic Product Executive at Bank of America Merrill Lynch adds, "There's a much bigger onus on the board to understand its organization's policies and how it's being run." While most directors understand their fiduciary obligations, they may not fully appreciate that there's a new level of board accountability. "The form asks for a description of the process the board follows in reviewing the Form 990 before submission. It used to be sufficient just to confirm that a copy was provided to the governing body. Simply providing a copy is no longer enough."

The IRS will follow through with public charities whose Form 990s indicate they don't meet today's higher standards of good governance. "At 12% of the U.S. gross national product, the nonprofit sector represents a sizable amount of 'lost' tax revenue," says Sterczek. Today's IRS is more fully staffed, he says, and more likely to audit what it regards as questionable practices.

But the IRS may be the least of a public charity's worries. The new Form 990 reveals any organizational weakness. And with public documents easily accessible online, inadequately governed charities will quickly be sniffed out, says David Ratcliffe, Managing Director at Bank of America Merrill Lynch Philanthropic Management. "Consequences run the gamut from hurting fundraising all the way to reputational damage."

The form's Schedule O asks charities to explain how they make their documents and policies available to the public. "It speaks to the importance of transparency," says Ratcliffe, "and provides a not-to-be-missed opportunity to share good governance practices that aren't demonstrated in other parts of the form."

### Helping public charities improve as organizations

When approached as a template for good governance, however, Form 990 goes beyond keeping charities on track. It can help them become even better organizations. "Form 990 forces best practices," says Ratcliffe, "and, just as important, an understanding of those practices."

Form 990 so clearly encourages and elevates transparency, accountability, and good governance, believes Ratcliffe, that it compels boards to look at each element of the form, understand it, and implement it.

For example, staying focused on the mission. "Charities can't assume everything they do fits their mission," says Greene. Form 990 encourages them to realign programs to their mission or to change what may be an outdated mission. For instance, a charity originally founded to help migrant workers but that now provides full community outreach should reflect that expanded service in its mission.

The effect on good governance has great implications for charities. Greene mentions another example, fundraising. "Donors often decide to contribute based on how an organization is run. If you were deciding between two charities with identical missions, and one is loosely run while the other posts its Form 990 online and looks really buttoned up, who would you give your money to?" For well-run organizations, Form 990 has become a highly effective fundraising tool.

Boards must be fully engaged in the process, says Greene. "Once delegated as a task for staff, the new form has been elevated to the board of director level."

### A more collaborative IRS

The IRS is keen on helping nonprofits navigate the 990 and abide by its good governance principles, says Donald Greene. "When we ask them for guidance, they're very helpful." He mentions converting a large supporting organization to a private foundation. "The IRS worked extensively with us to help us learn Congress's intention with the Pension Protection Act."

"Form 990 seems to be intended by the IRS as an educational tool," he says. "It has a dedicated staff for exempt organizations that wants public charities to ask questions. Disclose what you're doing on the form, and if it raises red flags internally, work with the IRS to address them." If you don't, today's better-staffed IRS is more likely to come to you.

### What's changed

The changes to Form 990 and its schedules are detailed on the IRS's website ([www.irs.gov](http://www.irs.gov) > Charities & Non-Profits > 2009 Form 990 - Significant Changes).

From the wider perspective of corporate governance, we view the following as the most significant changes to the form.

## Confirming the mission statement

Nonprofits now have the opportunity to tell their story up front. Section III, the Statement of Program Service Accomplishments, prominently states the mission for anyone reviewing the form—the IRS, current and potential donors, volunteers, and the wider community. “It’s your place to say all the great things about your organization,” says Sterczek.

### The IRS is most interested in:

- Three largest areas of accomplishment
- Succinct descriptions that clarify why the organization is tax-exempt

Its questions are similar to those asked when organizations first apply for tax-exempt status. “It’s really an extension of the determination process,” says Sterczek, so the IRS can ascertain that tax-exempt organizations still qualify as such. If the mission has changed, it must be reported in this section.

## Explaining executive compensation

Public charities also must make a more rigorous case for the salaries they pay. The questions in Section VII take the compensation of the nonprofit’s highest-ranking and highest-paid employees, its directors, and its trustees from the aggregate compensation expense reporting and showcase it at a new level of detail.

### The IRS is most interested in:

- Getting five types of income—base, bonus, other taxable, and deferred compensation and nontaxable benefits—from...
- ...Current institutional trustees, officers, key employees, other five highest compensated employees, and from people holding these positions during the previous five years

Charities must also explain how they determine these compensation levels. Past 990s asked for salaries of the highest-paid executives, says Greene. “The new form goes beyond this and asks how salaries are determined.”

The IRS wants evidence that charities have criteria for reviewing and vetting compensation (ideally by an independent party) and that pay conforms to market standards. “No one is saying your key people shouldn’t be paid well for what they do,”

Greene adds. “But it’s a red flag if you’re paying much more than similar organizations are paying.”

The IRS also wants to see that organizations have arrived at compensation levels that are consistent with the mission, says Ratcliffe, which can only be good for the organization.

## Steering clear of conflicts of interest

Part VI, Governance, Management, and Disclosure, confirms that 1) the organization has a conflict of interest policy, 2) its key people are required to disclose on a yearly basis all interests that could result in a conflict, 3) there is regular and consistent monitoring and enforcement, and 4) procedures exist for enforcement.

### The IRS is most interested in:

- Family and business relationships of officers, directors and trustees, and key employees

Schedule L of Form 990 goes further, asking for details on loans, grants, business transactions, and other transactions with interested persons (including disqualified persons).

This helps organizations as much as it helps the IRS. When one organization asked Bank of America Merrill Lynch to bid on its investment business, Ratcliffe discovered from its Form 990 that a board member—an investment manager—was being paid in the mid six figures to manage money for the charity. “It let us give them some much-needed advice on a conflict they may not have understood as potentially damaging to donor perceptions.”

## Protecting the messenger

Of the many indications of an organization’s transparency, none may be more telling than a whistleblower policy, which federal law now requires.

### The IRS is most interested in:

- Confirming that the organization has a whistleblower policy in place

This policy is an indication of good governance coming straight out of Sarbanes-Oxley, according to Greene. “Anyone in the organization should be able to say without risk that the executive director is doing something fishy, or that accounting practices seem strange.”

## Best practices for filing Form 990

The IRS makes a wealth of information available on its website, [www.irs.gov](http://www.irs.gov). Newer public charities can refer to the booklet that came with their determination letter, says Sterczek, which explains how to prepare the form.

But every public charity can benefit from implementing what we consider to be the following best practices as they prepare Form 990.

### 1. Assess

Organizations should determine exactly how prepared they are to file Form 990. A formal assessment can quickly detect whether the required policies and documents are adequate and in place.

For example, Bank of America Merrill Lynch uses a brief worksheet which clients complete, gets fed into a computer application, and results in a client report that includes an overall score as well as individual scores on each component of the form. "Clients can review it with us and with their outside tax or legal counsel," says Greene. "From there, it's easy to develop a checklist of what's in place and where there may be gaps."

### 2. Prepare

"The biggest task by far in filing Form 990, at least for the first time, is finding the documents," says Greene. One organization Ratcliffe recently began working with couldn't find its rules and bylaws. "Form 990 focuses charities on these basic issues."

Preparers often have trouble getting information from the organization, says Sterczek. "Form 990 takes more time and more scheduling, and only the charity itself can answer its questions." To smooth the process, he recommends that organizations:

- Identify the people tasked with providing specific information
- Explain to them what's needed to complete the form
- Clearly communicate deadlines and milestones

Once this information flow is established, says Sterczek, it should be relatively simple to maintain. The initial work is worthwhile. "Good recordkeeping is more than just good administration. Records are essential to evaluating programs and determining if you're reaching your objectives."

### 3. Educate

Although Form 990 has deep implications for any public charity, says Ratcliffe, "directors, volunteers, even executives, don't always have the experience or training to fully understand the governance issues public charities now face. There's a lot to know, and the significance cuts across the organization."

He recommends holding a rotating schedule of internal meetings on specific aspects of the form — "conflicts of interest, staying on mission, and so on."

The board in particular needs to know all the issues and potential liabilities and what it must do to implement policies and procedures. "Charities that are taking Form 990 seriously are making an effort to educate their boards," says Ratcliffe.

Consider a board retreat that deals with every aspect raised by the form — not just its changes but their strategic significance. If a retreat isn't reasonable, consider an in-person education forum or, if board members are geographically dispersed, a webinar or phone conference.

Be sure to follow up with specific groups within the organization to help ensure that the understanding you've imparted is translated into action. "Help your professional staff in complying," says Ratcliffe. "Make sure they understand the implications and are putting their understanding into practice."

Finally, continue this education over time. "Having a policy in place isn't sufficient by itself," says Ratcliffe. "To ensure good governance, you need a continual refocus on implications, review and enforcement."

### 4. Ally

Public charities that team up with an experienced provider — particularly one that can act as a fiduciary — can really make Form 990 work for them.

"Although investment management is our core activity," says Ratcliffe, "we bring a holistic approach to clients based on our hands-on experience in the nonprofit world. Our deep familiarity with issues like Form 990 lets us provide better fiduciary oversight."

He recommends seeking a provider with a staff that has worked in the sector and truly understands development, effectiveness, efficiency. Says Ratcliffe, "It will give your provider better insight into the challenges you face."



## Philanthropic Management

### **A high-def view of your organization, now seen by millions**

Not only are public charities now required to detail how they govern themselves. This highly detailed snapshot of the organization is also more accessible and in public view than ever — thanks to the internet. “It’s not just donors looking at this information online, it’s everyone,” says Greene.

Form 990s are available on state attorneys general websites, clearinghouses such as the National Center for Charitable Statistics’ (NCSS) site, and elsewhere online. That’s not the best news for public charities that aren’t run well, in our view. But for organizations that can demonstrate good governance, it’s a reward for their work in filing Form 990.

### **Are you fully leveraging IRS Form 990 for better governance?**

Bank of America Merrill Lynch can assess your preparedness for filing Form 990 and consult on becoming fully compliant. Our consultants specialize in educating public charities on issues relating to governance, accountability, and transparency, all toward helping your organization fulfill its mission.

**For more information on this topic, please contact your Merrill Lynch Financial Advisor.**

### **The evolution of IRS Form 990**

When it debuted in the 1941 tax reporting year, IRS Form 990 was a fairly simple document and remained so through the early 1980s. By 2000 the form was six pages long, had two schedules, and included a 42-page instruction book.

The current redesign tackles the standout issues of the last decade in corporate and nonprofit governance—the push for transparency and accountability after the abuses and scandals that culminated in the passage of Sarbanes-Oxley Act of 2002.

Says David Ratcliffe, “Governance oversight rests with the states. This is the IRS following through on a trend to help ensure that nonprofits are focused on good governance.”

The states attorneys general saw the Form 990 filing requirement as an efficient way to address oversight and suggested most of the changes to the new form. Many states now require a copy of Form 990.

“In the ebb and flow of corporate oversight by the government, we’re heading toward a more ‘regulated’ period,” says Greene. “Sarbanes-Oxley tried to enforce good business practices. Form 990 does the same for charities. It basically says, we want somebody other than your auditor to look over your shoulders. We think it could benefit the entire nonprofit sector.”

## Philanthropic Management

### For More Information

**BoardSource**

[boardsource.org](http://boardsource.org)

**Independent Sector**

[independentsector.org](http://independentsector.org)

**Council on Foundations**

[cof.org](http://cof.org)

**Guidestar**

[www.guidestar.org](http://www.guidestar.org)

**The Internal Revenue Service**

[www.irs.gov](http://www.irs.gov) > Charities & Non-Profits

**IRS telephone assistance for exempt organizations,  
retirement plan administrators, and government entities:**

Toll-free, 1.877.829.5500

Hours of Operation: Monday through Friday,

7 a.m. to 5:30 p.m. Central.

**The IRS's Exempt Organizations Update**

"Free e-mail updates from the IRS about issues of tax policy, services and available information that impact tax-exempt organizations..."

[www.irs.gov](http://www.irs.gov) > Charities & Non-Profits >

EO Newsletter > [subscribe](#)

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