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NONPROFITSTANDARD

NEW REQUIREMENTS FOR TAX-EXEMPT HOSPITALS: JUST THE BEGINNING?

By Laura Kalick, JD, LLM in Tax

The Patient Protection and Affordable Care Act added requirements for tax-exempt hospitals to qualify as charitable organizations under the Internal Revenue Code (IRC). Although the new requirements are very specific to tax-exempt hospitals, all organizations should take note that Congress views tax exemption as a privilege and not a right and that new requirements could be imposed on other organizations in exchange for the benefit of tax exemption. Senator Charles E. Grassley was very much responsible for the new hospital requirements being added to the law on the basis of requiring charitable services to be provided in return for tax exemption.

According to a 2008 Government Accountability Office (GAO) report on nonprofit hospitals called for by Senator Grassley, the value of tax exemption for nonprofit hospitals at the federal, state and local levels was $12.6 billion in 2002. Those figures are already outdated and they only take into account hospitals. With the government looking for revenue and tax reform, Grassley has now indicated that he believes that the value of tax exemption should be looked at for all organizations, especially those that provide services for a fee. His major concern is related to organizations providing services that are in competition with for-profit entities. The question is, "what benefit is being provided for the tax subsidy?" Of course, Congress would first have to calculate how much the tax subsidy is. Although Congress calculates tax expenditures, tax exemption is not considered such an expenditure and is not calculated. The information would have to be obtained from the IRS. The IRS is currently surveying colleges and universities, which along with hospitals, constitute the two largest components of the nonprofit sector.

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NEW REQUIREMENTS

In order to qualify as a 501(c)(3) hospital, a facility must meet the following four requirements of the newly created IRC Section 501(r):

1. A COMMUNITY HEALTH NEEDS ASSESSMENT REQUIREMENT

Hospitals are required to conduct a community health needs assessment (CHNA) at least every three years and adopt a strategy to meet the community needs identified through the assessment. If an organization fails to meet the requirements, then new IRC section 4959 imposes a $50,000 excise tax for any taxable year for which there is such failure. Hospitals will have to provide the CHNA report and their audited financial statements as attachments to Form 990. ***The requirement to attach audited financial statements is a first for the Form 990!***

2. FINANCIAL ASSISTANCE POLICY REQUIREMENT

An organization will meet this requirement if it establishes a widely publicized written financial assistance policy which includes eligibility criteria for financial assistance and whether such assistance includes free or discounted care; the basis for calculating amounts charged to patients and the method for applying for financial assistance. The policy must also require that the organization will provide emergency medical care regardless of an individual's eligibility under the financial assistance policy.

3. A CHARGES REQUIREMENT

The organization must have a policy that limits amounts charged for emergency or other medically necessary care. Charges provided to individuals eligible for assistance under the financial assistance policy limits them to not more than the lowest amounts charged to individuals who have insurance covering such care, and prohibits the use of the hospital's full undiscounted charges.

4. A BILLING AND COLLECTION REQUIREMENT

An organization will meet this requirement only if the organization does not engage in extraordinary collection actions before the organization has made reasonable efforts (to be defined by future regulation) to determine whether the individual is eligible for assistance under the financial assistance policy described above.

▶DELAYED FILING OF FORM 990 WITH SCHEDULE H

The IRS just announced that organizations operating one or more tax-exempt hospitals that would file Form 990 for the 2010 tax year before August 15, 2011, will have an automatic three-month extension of time to file the form. In addition, the announcement directs these tax-exempt hospital organizations not to file the 2010 Form 990 before July 1, 2011.

The revised Schedule H and reference to the IRS announcement can be found at: http://www.irs.gov/pub/irs-pdf/f990sh.pdf

For more information, contact Laura Kalick, National Nonprofit Tax Consulting director, at lkalick@bdo.com.

ITEMS TO WATCH....

1099 Provision in Health Care Bill – The Patient Protection and Affordable Care Act included Section 9006 which would amend Section 6041 of the Internal Revenue Code by requiring all organizations to begin reporting payments to corporations and payments for merchandise on Form 1099 beginning in 2012. Both the Senate and the House have passed bills to repeal the 1099 provision and this initiative has the support of the President. However, the parties cannot agree on how to approach the revenue loss that this repeal would create, so this issue remains a topic of debate. We will have to wait and see what the final outcome is and the potential effect this will have.

GuideStar Form 990 Issues – GuideStar has been informed by the IRS that processing errors occurred on some Form 990s that were electronically filed with the IRS between January 1, 2009 and December 3, 2010 for form year 2008. As a result of these errors, inaccurate data appears on the pdf file of the tax return filed with the IRS and subsequently posted on GuideStar. GuideStar is working with the IRS to obtain an accurate return and post to their site. An organization can post its own copy of Form 990 on the GuideStar website to supplement the form supplied by the IRS. GuideStar has posted a notice on the impacted Form 990s on their website so that a user will be notified of the issue if they select this return to view. For more information, visit GuideStar's website at www.GuideStar.org.

IRS to Share Information with State Tax Agencies – The IRS issued guidance that will permit them to disclose whether they are going to revoke the exemption of a charity or private foundation to the appropriate state officer even if this has not been communicated by the IRS to the organization yet. This communication is permitted under REG-1401-8-08 included in amendments to the Pension Protection Act. In addition, the IRS can disclose information about whether an organization has applied for charitable exemption and whether the IRS plans to deny the request or whether the organization has withdrawn the request.

OMB 2011 Compliance Supplement – The Office of Management & Budget (OMB) plans to issue their compliance supplement in a more timely fashion than in the prior year. They have provided the American Institute of Certified Public Accountants' Government Audit Quality Center (GAQC) a draft copy of the compliance supplement. The GAQC has prepared a summary of the major changes in the Supplement that can be accessed at http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/OMBCircularA133/DownloadableDocuments/Summary2011ProposedChangestotheComplianceSupplementFinal.doc.

EXECUTIVE DEPARTURES: HOW GOOD IS THE GOODBYE?

By Michael Conover

Like their for-profit counterparts, tax-exempt organizations routinely encounter situations involving the departure of a senior level executive. These situations range from celebratory endings of successful careers to disappointing departures after things don't work out. The circumstances surrounding them can vary greatly, but departures almost inevitably involve some consideration of compensation/benefit issues.

In the midst of these situations, boards or individuals charged with overseeing or negotiating the particulars of a departing executive's separation arrangement may sometimes fail to recognize that the compensation and benefits offered are covered by the IRS Intermediate Sanctions' excess benefit provisions or other IRS constraints on the types of compensation and benefit transactions allowed in a tax-exempt organization. In addition, enhanced disclosure requirements and the general public's outrage over excessive executive pay further heighten the potential repercussions from a separation arrangement.

Accordingly, a generous retirement arrangement bestowed upon an executive in recognition of years of service – and perhaps to make up for years of being underpaid – could present problems for the recipient and the organization rather than fulfill the original best intentions. Potentially more troublesome are the large payments representing months or years of compensation, continuation of top-shelf benefit coverage, etc. offered to an executive when things don't work out.

The Intermediate Sanctions provisions have prompted many tax-exempt organizations to realize the benefits of a more formal approach to management of executive compensation and benefits (i.e., the presumption of reasonableness). Accordingly, information and advice about competitive practices, independent compensation committees, and thorough documentation of the entire governance/administrative process associated with leadership compensation have become a regular occurrence in these organizations.

In addition to supporting their compliance efforts, many organizations have also learned more about the unique issues associated with compensation and benefit practices for tax-exempt organizations (e.g., excise tax/penalties imposed on excess benefit transactions, incentive plan issues, restrictions on retirement/deferred compensation plans, etc.). Board members from the for-profit sector often had not been aware of these issues. And finally, some organizations have also discovered ways to improve the competitiveness and effectiveness of their pay and benefit programs.

Despite increased sophistication of their ongoing compensation and benefit programs for executives, some tax-exempt organizations fail to realize a need for similar prudence in structuring their separation arrangements – or fail to do so until the very late stages when it is sometimes very difficult to undo or withdraw earlier commitments. The risk goes well beyond unrealized expectations. Examples seen over the years include tax-free consulting fees; lump sum severance payment of two years' compensation; and huge contributions/deferred compensation in the final three or four years of employment to achieve a nice retirement income and/or make up for low compensation over the years.

Tax-exempt organizations would be well advised to ensure that these aspects of executive departures are considered and incorporated in their compensation governance and administrative process:

Public Disclosure – sometimes even the most reasonable compensation/benefit arrangements attract negative comments because the rationale or actual arrangement requires a disclosure of a value in a particular year that is unusually large or out of proportion with respect to historical levels, other executives, etc. In these and sometimes more aggressive arrangements, media coverage may do little to help or may aggravate public perception. Outside advisors familiar with disclosure requirements can provide helpful insight on the form and timing of information that will become available in public filings.

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EXECUTIVE DEPARTURES

Intermediate Sanctions – in the event the IRS successfully identifies an excess benefit, the recipient faces significant excess tax penalties (20% to 200%) along with a requirement for repayment (with interest) of the excess amount. In addition, board members and other staff that were associated with the excess benefit may be subject to penalties (10% of the excess up to $10,000). Proposed departure arrangements (e.g., retirement, severance, etc.) can be subjected to competitive analysis in just the same way that compensation and benefits practices are analyzed. Therefore, developing proposed departure arrangements with the benefit of this competitive data, along with thoughtful/documented deliberation of the compensation committee, can be of great value in helping the organization secure the presumption of reasonableness.

Allowable Compensation & Benefit – an organization should make sure that retirement plans/contributions, other types of benefits or funding vehicles are allowable for use as well as understand the pros/cons and costs (known and unknown) that may be associated with the approach(es) in question. Again, knowledgeable outside advisors like BDO can be of extraordinary value in assisting an organization to structure a sound arrangement.

Tax-exempt organizations would do well to ensure that the compensation committee is appropriately involved as departure arrangements are being formulated. The time spent to develop severance guidelines or plan retirement benefits in light of these considerations will go a long way in helping to ensure the organization's desires for its departure arrangements are as successful as possible for all concerned.

For more information, contact Michael Conover, senior director, Specialized Tax Services – Compensation and Benefits, at mconover@bdo.com.

BDO INSTITUTE FOR NONPROFIT EXCELLENCE℠ IN THE NEWS

Members of the Institute are requested to speak on a regular basis at various conferences due to their recognized expertise in the industry. The following is a list of some of the upcoming events where you can hear BDO Institute professionals speaking:

APRIL

Lee Klumpp is presenting *Audit and Accounting Update* to the Northern Virginia Chapter of the Virginia Society of Certified Public Accountants on April 18.

Mike Sorrells will be presenting the topic *Form 990 Update: Changes for 2010 and Lessons Learned* at the Maryland Society of CPAs' Government and Not For Profit conference on April 29 in College Park, Maryland. In addition, Lee will be presenting the topic *American Recovery and Reinvestment Act Update* at this conference on April 29.

MAY

Lee is presenting a session entitled *Audit and Accounting Update* at the University of Central Florida's 30th Annual Accounting Conference on May 5 in Orlando, Florida.

Lee will be presenting an all-day course entitled *Audits of 401(k) Plans* for the Maryland Association of CPAs in Cumberland, Maryland on May 16.

Dick Larkin is presenting his annual *Accounting and Auditing Update* where he discusses current developments for nonprofits at the Colorado Society of CPAs 2011 Not-for-Profit Conference on May 17 in Denver, Colorado.

Mike will be presenting the topic *What in the World is the IRS Up To? A Discussion of IRS Nonprofit Initiatives, Hot Buttons and Audit Plans* at the Council on Foundations' *Facing the Investment Challenge: 2011 and Beyond* seminar on May 20 in Arlington, Virginia.

Mike is also presenting the topic, *Using Form 990 for Marketing Your Organization* to the Georgia Society of CPAs at their 2011 Nonprofit conference on May 26 in Atlanta, Georgia.

JUNE

Lee will be conducting a course entitled *Fraud in Governmental and Nonprofit Organizations* for the Connecticut Society of CPAs on June 1 in Rocky Hill, Connecticut.

Lee is presenting two courses on behalf of the Illinois Society of CPAs. The courses are *Comprehending OMB A-133* on June 7 and *Running a Nonprofit Like a Business* on June 8.

Dick will be teaching a session on revenue recognition for nonprofits at the American Institute of Certified Public Accountants' National Nonprofit Conference on June 8 in Washington, DC. Lee will be teaching a session at this conference entitled *Finance and Fundraising: Playing in the Same Sandbox* on June 9.

Dick is also presenting his annual *Accounting and Auditing Update* for the Indiana Society of CPAs on June 16 in Indianapolis, Indiana.

Lee will be conducting a course entitled *Technical Update – Top 12 Governmental and Nonprofit Accounting and Auditing Issues* for the Maryland Association of CPAs on June 27 in Cumberland, Maryland.

Lee is presenting two courses for the Illinois Society of CPAs. The courses are *Governmental and Nonprofit Annual Update* on June 28 and *Revised Yellow Book* on June 29.

EXTENDERS OF INTEREST TO NONPROFITS: BETTER LATE THAN NEVER

By R. Michael Sorrells, CPA

The fate of various extenders (provisions in the tax law which have never been made permanent) was finally decided by Congress when the 2010 Tax Relief Act was signed by the President on December 6, 2010. The following are those most likely to have an impact on nonprofit organizations :

Unrelated Business Income Tax

- Exclusion from Unrelated Business Income of certain payments by controlled entities to their nonprofit parents was extended so that payments of rent, interest and royalties for passive activities are only taxable to the extent that they are in excess of fair market value. This is a very narrow exclusion as it only applies to payments under contracts in effect on August 17, 2006, when this temporary provision was included in the Pension Protection Act of 2006.

Charitable Giving Provisions

- Tax-free charitable distributions from IRAs for individuals 70 and a half years or older. This provision means that individuals do not have to take an IRA distribution into income if the money goes to a charity.
- Increased contribution limits and carryforward period for charitable donations of appreciated real estate for conservation purposes.
- Enhanced contribution deductions allowed for:
  - Business contributions of food inventory
  - Contributions by corporations of books to public schools
  - Corporate contributions of computers for educational purposes

Higher Education Related Provisions

These provisions help individuals finance higher education:

- "Above the line" qualified tuition deduction for students
- American Opportunity Tax Credit for higher education (through 2012)
- Student loan deduction provisions (through 2012).
- Educational Assistance Exclusion – Allows employees to exclude up to $5,250 in employer-provided education paid on behalf of an employee (through 2012).

All provisions, except as noted, are one year extensions through December 31, 2011. Next year, we will have to see, once again, if they will continue to be extended. The Tax Relief Act contains many more extenders applicable to corporations and individuals but with limited utility for nonprofits. Contact your tax advisor for more information.

For more information, contact Michael Sorrells, national director, Nonprofit Tax Services, at msorrells@bdo.com.

INSTITUTE PROFESSIONAL PROFILE

MEET MIKE SORRELLS

Mike spoke at the Greater Washington Society of CPAs' 22nd Annual Not For Profit Symposium held at the Mayflower hotel in Washington, D.C. in December. He conducted a session discussing the IRS Workplan for 2011.

Mike Sorrells is the national director of Nonprofit Tax Services for BDO and is located in the Greater Washington, D.C. regional office. He provides tax consulting and compliance services to a wide spectrum of national and regional tax-exempt organizations. He has specialized solely in exempt taxation for over 20 years and directs a large local nonprofit tax practice. Mike is also the tax leader for the BDO Institute for Nonprofit Excellence℠.

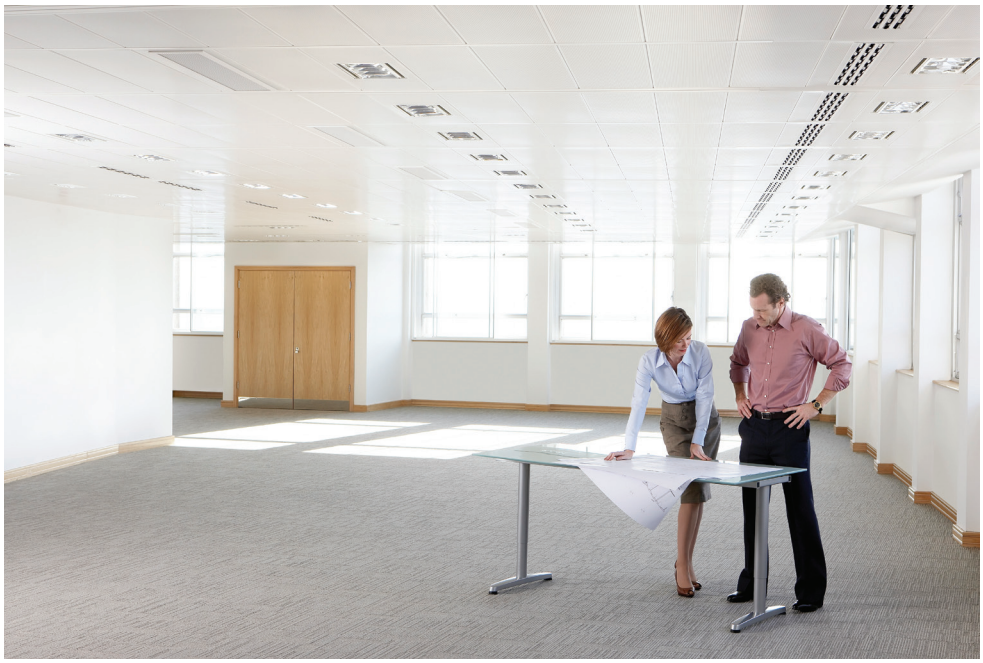
Mike has written numerous newsletter and journal articles and has spoken to many groups of nonprofit executives on a variety of tax issues concerning their organizations and has also authored several publications on nonprofit tax issues. Mike has actively participated on the AICPA task forces providing comments to the IRS on proposed regulations. As volunteer treasurer for two local charitable organizations, he has firsthand familiarity with the financial responsibilities of a nonprofit board.

Mike recently received the Charles J. Delany award for the most outstanding article for 2009 in *Contract Management Magazine,* the national publication of the National Contract Management Association. Mike has also been designated by *SmartCEO Magazine* as a 2010 Most Notable CPA.

Mike is an active board member and frequent speaker for the Greater Washington Society of Certified Public Accountants. He is also a member of the American Institute of Certified Public Accountants and the Virginia Society of Certified Public Accountants.

Mike has B.A. degrees in Government & Politics and Accounting from the University of Maryland.

ACCOUNTING FOR LEASES – INCLUDING A PROPOSED NEW ACCOUNTING STANDARD



By Dick Larkin, CPA

AS OF EARLY 2011, ACCOUNTING FOR LEASES IS THE SUBJECT OF FASB STATEMENT NO. 13 AND ITS NUMEROUS AMENDMENTS (CODIFIED IN TOPIC 840 OF THE FASB ACCOUNTING STANDARDS CODIFICATION).

Its requirements are not discussed in detail in this article as they are in no way peculiar to nonprofit organizations, and are discussed elsewhere.

Briefly, leases are currently classified as either "operating" leases or "capital" leases; the criteria for classification being, in essence, whether or not the lease amounts in substance to a purchase of the asset by the lessee. There are four specific criteria used in making this distinction. Leases meeting one or more of the criteria are capital leases; all others are operating leases.

Operating leases are not reported on the lessee's balance sheet (statement of financial position); rather, each year's rent is reported as an expense of that year, and the future obligation to make rental payments is disclosed in a footnote.

Capital leases are reported essentially as purchases by the lessee (similar, but reverse, criteria apply to the financial statements of lessors); the asset is capitalized on the lessee's balance sheet, with a corresponding liability for the future lease payments. The asset is amortized over the lease term, and the liability is reduced by the periodic rental payments.

FASB (jointly with the International Accounting Standards Board) is currently working on a project to revise this standard, and had earlier decided that after some future date – probably within a couple of years, all leases would be accounted for in essentially the way capital leases are now. For operating leases, this change will normally have little effect on an organization's income statement, since what is now reported as rent expense will henceforth be reported as amortization expense of a similar amount. The principal effect will be to gross up the balance sheet for the asset and liability described above, with little or no effect on net assets. An Exposure Draft (ED) to this effect was issued in 2010.

In many cases, this gross up will not matter to financial statement users; however, organizations should consider whether the increase in liabilities will negatively affect compliance with covenants contained in any debt and grant agreements to which the organization is subject. For example, if there is a covenant requiring the maintenance of no more than a certain maximum ratio of debt to equity (net assets), the debt amount will be higher, while the equity amount will probably not change, possibly causing the organization to be in violation of the covenant.

For example, suppose that under the current accounting rules, an organization's balance sheet reports assets of $1 million, liabilities of $600,000, and net assets of $400,000. Its debt-to-net assets ratio is 1.5 to 1. Further suppose it is subject to a covenant requiring this ratio to be no greater than 1.8 to 1. Further suppose again it has leases now classified as operating leases, which, when their future obligations are calculated under FASB's proposed new rules, will add another $200,000 of liabilities. Total liabilities will now be $800,000 (total assets will now be $1.2 million, so net assets will remain at $400,000) and the ratio will be 2.0 to 1 – in violation of the covenant.

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ACCOUNTING FOR LEASES

Consequences of this violation might – depending on the terms of the debt or grant agreement – include:

- acceleration of the debt repayment schedule, including possibly making the entire amount immediately due
- inability to refinance or roll over the debt, or cancellation of a line of credit
- increase in the interest rate on the debt
- increased reporting requirements
- a requirement to post additional collateral
- cancellation of future grant payments on current grants
- inability to obtain future grants from that funder

Organizations should identify any such covenants to which they are subject, determine whether they are likely to find themselves in violation after the revised accounting standard takes effect, and, if so, discuss the matter with the other party to the covenant (lender or funder) to try to have the covenant modified.

▶UPDATE ON TYPES OF LEASES

At a joint meeting in February 2011, the FASB and IASB Boards (the Boards) tentatively concluded that there are two different types of leases, rather than a single type. The change in direction results from outreach activities and comment letter responses to the original proposal. Some Board members described the first type (the "finance" lease) as a contract in which the lessee essentially purchases the underlying asset by obtaining substantially all of its risks and rewards through the lease. The second type of contract (the "other-than-finance" lease) is intended to create more financial flexibility, to mitigate the risk of ownership (for example, technological obsolescence), and/or to outsource the maintenance of an asset.

The current working definitions for each type of lease are:

Finance lease – The profit or loss of a finance lease has a pattern consistent with the 2010 ED, including interest expense/income using the effective interest method, as well as the lessee's amortization of its right-of-use asset. This profit or loss pattern reflects leases that contain a significant financing element where the right to use the underlying asset is conveyed on an installment basis.

Other-than-finance lease – A lease transaction in which the financing element is not considered significant. The profit or loss pattern of an other-than-finance lease is characterized by straight-line recognition.

The Boards plan to develop a principle and related indicators to distinguish the two types of leases.

In a finance lease, a lessee would record a right-of-use asset and corresponding liability. The liability would be amortized using the effective interest method, like a mortgage, and the right to use asset would be amortized, similar to depreciating a fixed asset. This treatment is the same as what the Boards originally proposed in the original ED.

In addition, since the Boards have tentatively agreed that the second type of lease contract does not contain a significant financing component, they intend to deliberate alternative attribution and presentation models for the income statement. In other words, the Boards will consider whether "rent expense" should be presented in the income statement, as opposed to the amortization and interest expense which would be presented under a finance lease. The Boards will also further evaluate whether a straight-line pattern of recognition—as tentatively indicated in the working definition—would be more appropriate than the accelerated pattern that results from applying the effective interest method to the lease payment liability.

In short, the Boards believe financial statement users will benefit from different income statement models to differentiate in-substance purchases from other leases. Finance leases will signal that the lessee has purchased substantially all of the risks and rewards of a leased asset by reflecting interest expense for the significant financing component. Conversely, other-than-finance leases will indicate when a lessee hasn't substantively purchased the asset. But in all cases, a lessee will portray its rights and obligations under the lease by reporting a right-of-use asset and a lease payment liability on its balance sheet.

Shortly after the meeting, there were conflicting reports as to whether both types of leases would be recorded on the balance sheet, or whether only finance leases would create recognized assets and liabilities. We have now confirmed that the Boards continue to believe all leases should be recorded "on balance sheet," consistent with the ED.

For more information, contact Dick Larkin, director, BDO Institute for Nonprofit Excellence℠, at dlarkin@bdo.com.

2010 FORM 990: CALM AFTER THE STORM, WITH SOME CHALLENGES TO COME

By Joyce Underwood, CPA

WE ARE NOW APPROACHING THE THIRD YEAR OF THE REDESIGNED FORM 990 WITH ITS 14 NEW LETTERED SCHEDULES.

Organizations that were required to file a return and have not filed for three years are currently receiving notices from the IRS of their exemptions being revoked. The population of organizations recognized as exempt by the IRS will likely grow smaller as noncompliant or old and defunct organizations are removed from the the IRS Master Files. Data from the initial two years on the new IRS form is slowly becoming public as returns are released for public inspection. While the IRS may be constrained by budget concerns, more information available in databases on exempt organizations should increase focus both by the IRS and other third parties interested in exempt organizations. During 2010 the IRS has spent time fine-tuning the forms to make them clearer and to provide more elaborate instructions and examples for frequently misunderstood items.

With the end of the phase-in of the new form, thresholds initially raised in 2008 are lowering back down to require more organizations to file a regular Form 990. For tax years 2010 and later, organizations with either gross receipts of $200,000 or more or total assets of $500,000 or more are required to file Form 990. Smaller organizations can still use the Form 990-EZ. Important to note for 990-EZ filers: the IRS no longer allows white paper attachments, but requires the use of the Form 990 Schedule O for all supporting information filed with the return. One positive item to note is that the 990-N, e-Postcard threshold increased, allowing qualified organizations to use 990-N when receipts are normally less than $50,000, instead of $25,000.

The 2010 Form 990 includes certain cosmetic changes and a rearrangement of content for better readability and function. Headings of 990, Parts III, V, VI, VII, XI, and XII include new checkboxes when a response is included on Schedule O to cross reference this information back to the form. New narrative parts have been added to Schedules E, G, K, L and R to supplement responses to questions within the schedule instead of using Schedule O. Schedule O should now be used only to supplement core form responses or to include other general information not specific to one of the 14 schedules. Additionally, continuation sheets on Schedules F-1, I-1, J-1, J-2, N-1, and R-1 are eliminated, which is a welcome change. Continuations of lists are no longer found in distant locations where they have been causing some confusion. Instead, additional space for listing items now uses duplicate copies of the relevant schedules placed right after the initial pages so information is continuously presented. Subtotals are also added for each page.

Certain clarifications are provided for Part IV, Checklist of Required Schedules. All section 501(c)(3) filers with a section 501(h) election in effect for the tax year must file Schedule C, II-A. Section 501(c)(4), (c)(5), and (c)(6) organizations with membership dues, assessments, or similar amounts must complete Schedule C, III. Organizations with one or more hospitals must attach their audited financial statements. Transactions with a section 512(b)(13) controlled entity must complete Schedule R, Part V, line 2. There is an exception for certain transactions under $50,000.

For Part V, Statements Regarding Other IRS Filings/Tax Compliance, IRS instructions explain how to calculate member income for purposes of the 85% Member Income Test, and include a new tip explaining when section 501(c)(12) organizations must file Form 1120. New lines are also added to require

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2010 FORM 990

organizations that received any payments for indoor tanning services during the tax year to indicate whether they have filed a Form 720 to report such payments.

Some of the unclear areas under Part VI, Governance, Management, and Disclosure, have received further explanation. The IRS now reminds us that the governing board is considered to have adopted a policy only if such policy was adopted by the end of the tax year. Only business and family relationships between the organization's current (not former) directors, trustees, or key employees are required to be identified. The instructions give two new examples to clarify the meaning of "local chapters, branches, and affiliates." The IRS clarifies what many believed; that providing the board a copy of the 990 must be answered "No" if you have redacted or removed any information (such as names and addresses of contributors or compensation) or limit the copy to less than the full voting board.

A few clarifications for Part VII, Compensation, have been added. The checkbox in Section A, line 1a, should be checked if neither the organization nor any related organizations compensated any current officer, director, or trustee of the organization. If a related organization is related to the filing organization for only a portion of the tax year, you may choose to report compensation paid by the related organization only during the time it was related. Reportable compensation for officers and employees is clarified to include both Form W-2, box 5, and Form 1099-MISC, box 7, if applicable. You must also describe on Schedule O the average weekly hours each listed person worked for any related organization. The compensation table now clarifies reporting for Part VII and Schedule J of certain amounts deferred under qualified and nonqualified plans.

Part VIII, Revenue, instructions clarify that neither donations of services (including the value of donated advertising space or broadcast air time) nor donation of use of materials, equipment, or facilities may be reported on Form 990, even though they are included on GAAP (generally accepted accounting principles) financial statements. They also clarify the reporting of donated items sold at an auction by providing an example in the instructions.

For Part IX, Expenses, the IRS clarifies that the costs incurred to secure funding should be allocated to "program" expenditures where program services are provided to the grantor or other contracting party, but allocated to "fundraising" expenditures when services are provided to the general public which is more in line with financial reporting. The revised instructions clarify the allocation of the salaries and benefits expenses to lines 5-10 for reimbursed payroll costs when reimbursing payroll agents, common paymasters, and other third parties for compensation paid to the organization's officers, directors, trustees and employees, while payments to a third party go on 11g, other services. Also, due to the size limitation for itemizing other expenses on the "other" line, miscellaneous expenses listed on these lines that are greater than 10% of the total expenses must be further itemized on Schedule O.

There are few changes to note on Part XI, Reconciliation of Net Assets, but reconciliation from beginning to ending net assets has been added. The former Part XI, Financial Statements and Reporting questions are now included under Part XII.

The IRS continues to have an international focus among all types of return filers. Schedule F, used to report foreign transactions, includes a Part IV which requires identification of transfers or ownership in foreign entities and operations in or related to boycotting countries, and reminds organizations of the need to file international form types 926, 3520, 5471, 8621, 8865, and 5713, if appropriate. (Foreign bank account reporting is still an emphasis with questions both in the core part of Form 990 and on the 990-T regarding foreign account holders and signers.)

Both the 2009 and 2010 Form 990 require expanded reporting under Schedule K for tax-exempt bonds to include all of the new questions. The sections include Bond Issues; Use of Proceeds; Private Business Use; and Arbitrage. Some of the information can be gathered from the organization's bond information return, Form 8038, that is filed after a bond is issued. Other information relates to activities since the bond was funded.

Expanded reporting is also required for 2010 for tax-exempt hospitals on Schedule H. The Patient Protection and Affordable Care Act, effective for tax years starting after March 23, 2010, included additional requirements for tax-exempt hospitals to maintain their tax-exempt status. Due to late revisions to both the forms and systems to reflect new requirements for 501(c)(3) hospitals, the start of the filing season is delayed for certain hospitals. Tax-exempt hospital organizations may not file their 2010 Forms 990 (with Schedule H attached) before July 1, 2011. Hospital organizations with original 2010 tax year filing due dates before August 15, 2011 will be granted a three-month automatic extension. (See related article on page 1 of the newsletter for more detailed information on this issue.)

The beginning of the third year of the new Form 990 is a good time to look back at the accomplishments of the expanded requirements and to positively note how many organizations have worked to file timely and compliant returns. Many are better understanding some of the issues that surround the industry, while more transparency for some has been and will continue to be difficult to adjust to. The IRS is expected to use some of the information to better understand the various types of organizations that make up the diverse population, to target their resources toward it, to focus exams and inquiries on the right issues and organizations, and to provide better data about exempt organizations to Congress. They will continue to rely on the public to keep watch, and also provide educational information to better assist the industry, especially the new and growing organizations. New applications for exemption continue at a steady pace, and the industry continues to grow and change with the ebb and flow of the economy. Future changes to the 990 will occur, no doubt, as the environment changes and new issues take predominance.

For more information, contact Joyce Underwood, director, Nonprofit Tax Services, at junderwood@bdo.com.

FEDERAL TAX DEPOSIT ALERT – PAPER COUPON PAYMENTS DISCONTINUED IN 2011

BEGINNING JANUARY 1, 2011, THE TREASURY DEPARTMENT WILL NO LONGER ACCEPT PAYMENTS MADE BY PAPER COUPON. INSTEAD, THEY SHOULD BE MADE BY USING THE ELECTRONIC FEDERAL TAX PAYMENT SYSTEM. FEDERAL TAX DEPOSITS CAN BE MADE EASILY, SECURELY, AND CONVENIENTLY, 24 HOURS A DAY, 7 DAYS A WEEK, ONLINE OR BY TELEPHONE.

Information compiled by BDO Seidman Alliance firm, Marvin & Co.

▶TAXES COVERED BY THE NEW RULE

- Employment taxes
- Corporate income taxes
- Unrelated business income taxes (paid by tax-exempt organizations)
- Excise taxes
- Estimated taxes on certain trusts
- Retirement distribution withholding
- Backup withholding
- Nonresident alien and foreign corporation withholding

▶EXCEPTION

Employers who have an employment tax deposit liability of less than $2,500 for a return period will be allowed to pay their employment taxes by check with their quarterly or annual returns.

▶HOW TO ENROLL

- Go to www.eftps.gov and select Enrollment
- Read and accept the Privacy Act and Paperwork Reduction Act
- Select whether enrollment is for a Business, an Individual, or a Federal Agency
- Complete the enrollment application with the following information:
  - Taxpayer Identification Number
  - Name and address as they appear on your IRS tax documents
  - Bank account number and routing transit number
- You will receive a PIN by regular mail
- Then call 1-800-982-3526 after receiving your PIN to get a temporary internet password
  - An internet password will not be necessary if you will be making your payments only by telephone

▶HOW TO MAKE PAYMENTS BY INTERNET

- Go to www.eftps.gov and select Make Payment
- Log in with your Taxpayer Identification Number, PIN, and internet password
- Enter your payment information
- Save a copy of the Payment Confirmation page upon completion. This page contains the EFT Acknowledgement Number that acts as your receipt.

▶HOW TO MAKE PAYMENTS BY TELEPHONE

- Call the toll-free number
  - 1-800-555-3453 for businesses or 1-800-315-4829 for individuals
- Follow the voice prompts to select the tax form, payment type, period and amount
- Record your EFT Acknowledgment Number
- You will need your Taxpayer Identification Number and PIN

For more information or questions related to this issue, please contact Joyce Underwood at junderwood@bdo.com.

NONPROFIT FINANCIAL STATEMENT ANALYSIS – WHAT SHOULD I BE LOOKING FOR?

By Lee Klumpp, CPA

Many times, I have been asked the following two questions by nonprofit organization board members and senior management:

- What should I be looking for when I review my organization's financial statements, and
- What questions should I be asking of the management team?

▶WHAT SHOULD I LOOK FOR IN A NONPROFIT'S FINANCIAL STATEMENTS?

Understanding a nonprofit organization's financial information is not only the key to determining a nonprofit's health but also the building block for making most financial decisions. There is much to be learned from a nonprofit's financial statements other than whether the organization made a profit.

From the financial statements we can learn many things about a nonprofit organization, such as:

- Did the organization have enough cash inflows to cover operations or is it living off its reserves?
- How much of the funds being raised are being spent on programmatic activities?
- How heavily leveraged is the organization?
- How much did it cost the organization to raise money?
- Is there a concentration of funds that come from a specific revenue source that may be putting the organization at risk?
- Does the organization have the ability to meet its obligations?

Since many of us that work for or volunteer for nonprofit organizations in various capacities do not have the time to review every transaction in exercising our fiduciary responsibilities, it is important that we use other skills to ensure that the financial records are complete, accurate and represent the whole picture of the organization. One of the skills that we might use to meet that responsibility is our analytical skills. Through analysis of the financial results and inquiry of management and staff we can identify unexpected variances and trends that do not meet our expectations. This may bring to light issues that we might want to look into further. The key concept in the previous sentence is *expectation*. How do we develop our expectations and what should our expectations be based upon? This is not an easy question. Our expectations can be based on many things, such as:

- Past experience and performance
- Knowledge of current trends in the organization's charitable sector
- Current budget
- Transaction, event or financial reports delivered in previous board or committee meetings
- Current trends in the economy or the market

Now, some of us may remember back in college a class that we took called *Quantitative and Qualitative Analysis*. This was a class in which you might have been required to do a few case studies in a group setting and you were probably the one that did all the work since no one else showed up for study group. I hope that this is not the case now. Let's refer back to that class for a couple of definitions that are important to understand.

▶QUANTITATIVE ANALYSIS

Webster's New World Dictionary defines quantitative analysis as "the branch of chemistry dealing with the accurate measurement of the amounts or percentages of the various components of a compound or mixture."

Now if we all think back to high school chemistry class, we know that chemistry is an exact science. However, contrary to some opinions, accounting is not an exact science since there are certain levels of judgment and estimation involved in accounting.

The word quantitative by itself according to *Webster* means "capable of being measured" and if we think of that definition from a financial and accounting perspective, it would mean separating or breaking up of any whole (the financial statements) into its parts (individual accounts, financial statement line items, groups and class of transactions, accounts and financial line items, etc.), in a way that is capable of being measured in terms of quantity with some degree of precision. In using this definition of the word "measure," it would allow us to determine the nature, timing, function and interrelationship of that which we are analyzing.

Therefore, quantitative analysis for financial and accounting purposes is the measurement of results. The best way to measure results is through formulas, ratios or the expressions of other relationships that can be expressed in mathematical terms. The most common forms of quantitative analysis of financial and accounting data are trends and ratios.

▶QUALITATIVE ANALYSIS

Webster defines qualitative analysis as "a branch of chemistry dealing with the determination of the elements or ingredients of which a compound or mixture is composed."

In this definition one does not find a reference to accuracy, exactness or measurement in terms of quantity. For financial and accounting purposes, we must be concerned with analysis that is readily measured in terms of quantity.

Qualitative analysis is difficult to perform since it not subject to an exact measurement. However, there are some ways that qualitative analysis can be useful, if applied correctly.

The key to the application of qualitative analysis rests in the ability of the nonprofit organization to select criteria by which the organization will measure performance and efficiency. In order for qualitative analysis to be useful when applied to the financial

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NONPROFIT FINANCIAL STATEMENT ANALYSIS

activity of a nonprofit organization, all parties must concur on the criteria being used. If one party exercises more authority than the others in determining the criteria, there will be questions related to the validity of the analysis.

If the users of the analysis can come to an agreement on the selection and criteria, one transforms qualitative analysis into quantitative analysis. This can be accomplished by the design of standards, benchmarks and key performance indicators for efficiency, effectiveness and performance. This sounds easy but the difficulty is in establishing the criteria, not with the gathering of information or the comparison of the information to the standards, benchmarks and key performance indicators. In establishing these standards, benchmarks, and key performance indicators it is very important to ensure that you remove all bias, distortions, and misinterpretation that could make the results misleading. Misleading results could allow for costly and incorrect decisions to be made.

A perfect example of where there have been problems with qualitative analysis is within the nonprofit watchdog groups. These groups have in one way or another been appointed, directed or have established themselves as the protectors of the public to ensure that the public resources that have been provided to nonprofit organizations are used for their intended purpose. However, all parties have not agreed on what measures truly indicate whether a nonprofit is operating effectively and efficiently.

A key point to understand when calculating ratios for nonprofits is that when using information from the statement of financial position, it is important to be aware of temporarily and permanently restricted net assets and how these types of net assets may affect the ratios. Calculating ratios using only unrestricted net assets may sometimes yield more useful results.

We have included some key financial ratios that are often used to analyze the operations of nonprofit organizations.

Some of the more frequently used financial ratios that can be utilized to perform both a quantitative and qualitative analysis that are specific to nonprofit organizations are as follows:

The Defensive Interval Ratio

$$\frac{\text{Cash, Receivables and Marketable Securities}}{\text{Average Monthly Expense}}$$

This ratio measures the adequacy of the resources of the nonprofit organization to support its mission.

Liquidity Funds Indicator

$$\frac{\text{Net Assets – Restricted Endowments – Fixed Assets – Prepaid Expenses}}{\text{Average Monthly Expenses}}$$

This indicator measures how many months the organization has before it will consume its liquid assets, assuming that no additional revenue flows into the nonprofit organization.

Accounts Payable Aging Indicator

$$\frac{\text{Accounts Payable}}{\text{Average Monthly Expenses}}$$

This indicator tells us how many times during the course of a year the nonprofit organization is able to turnover its accounts payable.

Fundraising Efficiency

$$\frac{\text{Total Contributions (Except Government Grants)}}{\text{Fundraising Expense}}$$

This ratio measures the relative cost to produce voluntary contributions from the general public.

Net Operating Ratio

$$\frac{\text{Total Revenue – Total Expenses}}{\text{Total Revenue}}$$

This ratio provides the nonprofit organization with a measurement of efficiency. It can be particularly useful to nonprofits that sell products or provide services for a fee, such as colleges and universities, camps, conference centers and healthcare facilities.

Management Expense Ratio

$$\frac{\text{General and Administrative Expenses}}{\text{Total Expenses}}$$

This ratio measures efficiency of the nonprofit organization in using the general support raised from the unrestricted contributions in relation to the overall activities of the organization.

Charity Expense Ratio

$$\frac{\text{Unrestricted Contributions}}{\text{Total Expenses}}$$

This ratio measures the use of funds raised from the general public to total overall activities of the nonprofit organization.

Cash Flow Return

$$\frac{\text{Operating Cash Flows}}{\text{Total Assets}}$$

This ratio measures the efficiency with which the nonprofit has used all the assets at its disposal to generate cash flows.

Liquidity Ratio

$$\frac{\text{Cash, Receivables, Inventories and Marketable Securities}}{\text{Total Liabilities}}$$

This ratio indicates the financial strength of the nonprofit organization.

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NONPROFIT FINANCIAL STATEMENT ANALYSIS

Net Temporarily Restricted Asset Ratio

$$\frac{\text{Temporarily Restricted Net Assets + Deferred Revenue}}{\text{Cash and Cash Equivalents}}$$

This ratio indicates if the nonprofit organization is borrowing from the future or from net assets intended for future periods.

Debt Ratio

$$\frac{\text{Average Total Debt}}{\text{Average Total Unrestricted Net Assets}}$$

The for-profit world calls this the debt-to-asset ratio. It is useful for nonprofit organizations that carry debt.

Unrestricted Net Asset Ratio

$$\frac{\text{Unrestricted Net Assets}}{\text{Total Annual Expenses}}$$

This ratio measures the amount of unrestricted, spendable net assets, in relation to the nonprofit organization's annual operating expense.

Fundraising Expense Ratio

$$\frac{\text{Fundraising Expenses}}{\text{Total Expenses}}$$

This ratio measures efficiency in fundraising activities to the total activities of the nonprofit organization.

Program Service Expense Ratio

$$\frac{\text{Program Service Expenses}}{\text{Total Expenses}}$$

This ratio measures efficiency in the funds spent on the nonprofit organization's mission and the total expenses. This is a very key ratio in the eyes of donors.

Grants-to-Expense Ratio

$$\frac{\text{Grant Revenue}}{\text{Total Expenses}}$$

This ratio measures the use of grant funds raised from governments, foundations and others to total overall activities of the nonprofit organization.

Cash Flow Liquidity

$$\frac{\text{Cash + Marketable Securities + Operating Cash Flows}}{\text{Total Current Liabilities}}$$

This ratio measures the ability of the nonprofit organization to cover its current liabilities.

▶WHAT QUESTIONS SHOULD I ASK?

Being part of the board of directors or audit committee of a nonprofit organization comes with a significant amount of fiduciary responsibility. We have discussed what one should look for in analyzing the financial statements themselves. However, this must be accompanied by asking questions of management as well. You need to understand if there is anything going on within the nonprofit organization that you should know about. In addition, there are certain questions that should be asked of the accounting and finance team of the organization to enable you to satisfy your fiduciary responsibility to the organization.

Listed below are some questions that you might want to consider asking of any nonprofit organization. This list is not meant to be all inclusive and we hope that these questions may actually lead you to identify more questions. The one thing to remember is that you should be asking questions and receiving satisfactory answers in order to fulfill your fiduciary role.

Governance and Oversight Topics

- Do we have a formal conflict of interest policy?
- What transactions have we had with related parties (other than the executive director's compensation)?
- Were all related party transactions approved by the board – with full knowledge of the relationship, and without input from the related party?
- Has the executive director's total compensation been approved by the board?
- Do we have a record retention policy?
- Do we have a whistleblower protection policy? Has this policy been communicated to the staff?
- Are we satisfied that our auditor is independent?
- Does our auditor understand that (s)he has unrestricted access to the board/audit committee?
- Has our auditor made recommendations for improvements in controls that were not required to be communicated to the board of directors?
- Has our auditor received a clean peer review report?

Nonprofit Tax Topics

- Are there any possible failures to comply with rules related to receipt of gifts (acknowledgement, quid pro quo, etc.)
- Have we complied with the public disclosure requirements of Form 990 on request?
- Is there anything about our organization or its operations that we would be embarrassed to read about in the local newspaper or discussed on the evening news?
- Have we filed all required government reports (Form 990, state forms, etc.) on a timely basis?
- Have we made all payroll tax deposits required on a timely basis? (If this is not done, officers and board members can be held personally liable.)

Internal Controls, Accounting and Financial Topics

- Is there a healthy attitude about internal controls, originating at the very top of the organization?
- Does senior management have the ability to influence or override internal controls?
- Do we have written procedure manuals for important financial and operational areas?
- How soon after the end of an accounting period is a budget-to-actual comparison made and significant variances (or lack thereof, where expected) investigated?

For more information, contact Lee Klumpp, director, at lklumpp@bdo.com.

GAO STUDY ON INCONSISTENCIES IN INDIRECT COSTS

By Tammy Ricciardella, CPA

The United States Government Accountability Office (GAO) has issued a report titled, *"Nonprofit Sector: Treatment and Reimbursement of Indirect Costs Vary Among Grants, and Depend Significantly on Federal, State, and Local Government Practices."* The GAO was asked to review for certain selected grants and nonprofits how the indirect cost terminology and classification vary, how indirect costs are reimbursed and, if gaps occur between the indirect costs incurred and those reimbursed, what steps organizations take to cover these gaps. The GAO selected six grants awarded by the Department of Health and Human Services and the Department of Housing and Urban Development. They then selected three states (Louisiana, Maryland and Wisconsin) and more than 20 local government and nonprofit organizations that received funding under some or all of the six grants. The GAO reviewed policies and documents governing indirect costs and interviewed relevant officials to conduct this study.

The GAO noted in their study that nonprofits may be reimbursed for indirect costs, administrative costs, both, or neither, depending on the grant program or even who awards the funds to the nonprofit. The GAO noted that the terminology used by the OMB in its cost circulars is not always clear and at times the definitions seem to negate each other, causing confusion and uncertainty in calculating what the indirect costs incurred actually are and how they should be calculated. In addition, the study noted that even within similar grant programs, the amount awarded for indirect costs may vary significantly depending on who makes the award. The study noted that state and local agencies can set the indirect cost percentage, which results in ranges that can be claimed or set this at zero so that the nonprofit cannot claim any reimbursement for indirect costs at all. State and local governments are not required to consider or honor a federal indirect cost agreement that an organization may already have in place.

This lack of consistency does not only affect the ability to know what to charge but it also makes it very hard to set up the appropriate tracking method within an accounting system since the requirements are so different from one grant or agency to another. This causes the nonprofit to incur more indirect costs trying to properly account for and report to the various funding agencies.

As a result of the items discussed already, oftentimes a nonprofit is left to cover a portion or all of their indirect costs related to an award. As a result, they must find funds to cover this gap from other sources. Oftentimes, this gap is covered by using funds from donations, endowment funds or business income generated from other activities. Specific funding for indirect activities is not easy to obtain. As a result, many organizations also rely on in-kind donations or volunteer labor to help cover costs. However, volunteer labor may actually be adding to their indirect costs since supervision and training is also involved in order to use volunteers.

Unfortunately, a nonprofit's ability to cover all their costs can affect both their ability to provide their program services as well as maintain critical infrastructure. This problem can cause nonprofits to make difficult decisions to reduce the services provided or decide to stop providing certain services altogether. In addition, a nonprofit may not have enough funds to cover maintenance and other critical infrastructure costs which can also hinder their ability to provide quality services to those in need. One area that often is affected is the accounting function, which can also cause the shortage of funding to snowball. Cutting personnel can also affect the nonprofit's ability to provide the necessary accounting reports to prepare invoices and reports to allow them to recoup the costs they are entitled to under the agreement, causing further cash flow issues.

The study also noted that in several instances there was a significant delay in the receipt of the funding, both upon initial approval as well as in response to payment requests. This has been caused by the overall economic crisis we currently find ourselves in but perpetuates the cash flow issues of nonprofits trying to provide services under grant agreements.

The GAO concluded from their study that the ability of many nonprofits to determine and manage their indirect costs is directly affected by the inconsistencies that exist in the terminology and guidance across federal programs with regard to the classification of costs. In addition, the varying reimbursement practices by state and local governments that pass through federal funds affects the recovery of indirect costs. The GAO noted that until there is a clear understanding of the indirect cost guidance and a consistent classification of costs, nonprofits will continue to struggle with these issues. The GAO recommended to the director of the OMB that federal, state, and local government, and nonprofit representatives be brought together to propose resolutions to these issues and bring clarity to how indirect costs should be treated and captured for their recovery.

The OMB and the AICPA's GAQC recently held a meeting and the OMB asked practitioners to inform their clients about this report since the OMB feels that a good first step would be for nonprofit organizations to better understand the issues. In the meantime, the OMB is considering what steps to take to assist nonprofits in their understanding of indirect and administrative costs and how to ensure that they are captured appropriately so they can be reported in a manner to assist in their recovery. The GAO's report can be found at http://www.gao.gov/new.items/d10477.pdf.

For more information, contact Tammy Ricciardella, director, at tricciardella@bdo.com.

WEBINARS

The following schedule shows the planned webinars that BDO will be hosting or co-hosting in April 2011. Visit **www.bdo.com/events** for additional webinars for 2011. The webinars are free, CPE-qualified webcasts that are offered on various topics. As a recipient of the *Nonprofit Standard,* you are also on the mailing list for the invitations to the webinars. As the date of each webinar approaches, you will receive an invitation with further information on the webinar content and enrollment options.

We hope you and your colleagues will plan on participating in these webinars.

APRIL 2011

Monday, April 11 / 12:00-2:00 pm ET / CPE 2.0 in Tax

Who's Watching You Now? Review of State & Other Fundraising Reporting

Mike Sorrells, Moderator, BDO
Seth Perlman, Featured Speaker, Perlman and Perlman
Tracy Boak, Co-facilitator, Perlman and Perlman

For more information and to register, please go to
www.bdo.com/events/April11NonprofitWebinar

Friday, April 29 / 12:30-3:00 pm ET / CPE 3.0 in Accounting

Developing and Managing a Successful Fundraising Campaign

Moderators:
Jeffrey S. Tenenbaum, Venable, LLP
David Chiang, Morgan Stanley Smith Barney

Panel Participants:
Paulette Maehara, Association of Fundraising Professionals
Kristalyn Loson, Venable, LLP
Art Taylor, BBB Wise Giving Alliance
Lee Klumpp, BDO

For more information and to register, please go to
www.bdo.com/events/April29NonprofitWebinar

BDO also conducts various live seminars throughout the country on topics that are of specific interest to nonprofit organizations. These seminars are offered free of charge and are CPE-qualified. Contact your local office for seminars that are being conducted locally or check our website: www.bdo.com/events for further details.

BDO NONPROFIT & EDUCATION PRACTICE

For 100 years, BDO has provided services to the nonprofit community. Through decades of working in this sector, we have developed a significant capability and fluency in the general and specific business issues that may face these organizations.

With more than 2,000 clients in the nonprofit sector, BDO's team of professionals offers the hands-on experience and technical skill to serve the distinctive needs of our nonprofit clients – and help them fulfill their missions. We supplement our technical approach by analyzing and advising our clients on the many elements of running a successful nonprofit organization.

In addition, BDO's Institute for Nonprofit Excellence℠ (the Institute) has the skills and knowledge to provide high quality services and meet the needs of the nation's nonprofit sector. Based in our Greater Washington, DC Metro office, the Institute supports and collaborates with BDO offices around the country to develop innovative and practical accounting and operational strategies for the tax-exempt organizations they serve. The Institute also serves as a resource, studying and disseminating information pertaining to nonprofit accounting and business management.

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