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University of Kentucky

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Does the Voluntary Standards for Excellence Program Improve Reporting Qualities & Financial Ratios of Nonprofit Organizations?

Harmony Little
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Capstone, Spring 2006

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Problem Statement
The issue of accountability in the nonprofit sector has increased over the past few years, and along with it, questions about the adequacy of information in the 990 forms filed annually by nonprofits to the IRS. The intent of the 990 form is to provide the public with necessary information to evaluate the performance of a nonprofit; however, a number of studies show that there are significant errors on the 990 returns. At the same time, there has been a rise in nonprofit watchdog groups who use the information available on the 990 forms to calculate nonprofits' financial ratios, and in turn, use those ratios to rank and determine the effectiveness of a nonprofit organization. The practice of ratings has increased over the last few years and is putting pressure on nonprofit organizations to cut their management and spending costs.

Research Question
Does participation in the voluntary *Standards for Excellence* program improve the reporting quality and financial ratios of nonprofit organizations?

Research Strategy
The research design for this analysis is a quasi-experimental design of a before and after tests with a treatment and comparison group. The 990 forms of some charities that participated in the *Standards for Excellence* program developed by the Maryland Association of Nonprofit Organizations was examined the year before and the year after they received certification to see if there are any improvements in reporting quality and financial ratios. That data was compared to a comparison group who did not receive the *Standards for Excellence* certification to see if there were any differences between the two groups. The t-test was used to see if there were any significant statistical differences among and between the pretests and posttests of the treatment group and of the control group. The t-test was also used to determine if there was a significant statistical difference in the change of errors and financial ratios between the two groups.

Major Findings
No statistical differences could be found to indicate that voluntary participation in the *Standards for Excellence* program improves the reporting quality or the financial ratios of nonprofit organizations. Consequently, the study cannot determine if there is a treatment effect for the certified organizations.

Summary
The findings of this study points to the fact that the *Standards for Excellence* program does not resolve the reporting problems related with the 990 form that is a widespread issue throughout the nonprofit sector, nor does the program improve the financial ratios of certified organizations. Other measures will have to be found to remedy the problem with the quality of information disclosed on the 990 form and the issues surrounding using financial ratios to rate the effectiveness of nonprofit organizations.

STATEMENT OF THE PROBLEM

Nonprofit organizations are under pressure to show the public that they are accountable and responsible organizations. Over the past years the issue of accountability in the nonprofit sector has increased, and along with it are concerns about the reporting qualities and efficiency of nonprofit organizations. The reasons behind this distrust are concerns that the current regulatory setting makes it close to impossible to measure a charity's effectiveness and to determine if it is living up to its mission. Questions about governance and management of nonprofit organizations have been raised by the media, watchdog groups, and congress as they point to the weakness in the financial and administrative regulatory environment of the nonprofit sector. At the heart of this issue is the 990 federal report nonprofit organizations are required to fill out and submit annually to the IRS. The 990 form contains financial information about nonprofit organizations and it is the only public document these organizations file. The problem with the 990 form is the fact that there are significant errors on these returns; studies show that many nonprofits fail to submit required information and many fill out the form wrong (Ottenhoff). These errors and mistakes hurt the usefulness of the 990 form because they don't accurately portray the true nature of a nonprofit's activities. Added to this problem is the fact that the sector's compliance with legal requirements is poorly monitored and the sector is therefore mostly left to self-regulation; no government agency exists exclusively to monitor the activities of nonprofits (BoardSource).

There has been much debate over the past few years among the nonprofit sector, the public, the government, and watchdog groups about how to address and find solutions to these accountability issues. Several proposals, including stringent regulations, new reporting requirements for nonprofit organizations, and new accreditation programs for nonprofit organizations have been put forth by various player, but none of these suggestions have been implemented (Berns). What has emerged is the use of financial ratios by charity watchdog groups that are used by the public, donors, grant makers, and other stakeholders to rate the effectivness and efficiency of nonprofit organizations. Though this is becoming a widespread practice, it is not being embraced by the nonprofit community because many believe these ratios do not accurately reflect the work accomplished by nonprofit organizations.

In 1998, the Maryland Association of Nonprofit Organizations developed its own approach to these management and governance problems facing many nonprofits. The organization created the *Standards for Excellence Program*, a voluntary best practices program that set high standards for nonprofit organizations to follow in order to ensure sound management practices (Carnegie Results). The *Standards* program addresses nonprofit program operations, governance, human resources, financial management and fundraising practices. Organization that meet these standards can receive the *Standards for Excellence* certification, which gives them the right to display the *Standards for Excellence* seal next to its name demonstrating that they have high governance and management standards in place. The goal of the program is to nationalize these standards and make it a uniform system for all nonprofit organizations in America. The question is: is the program effective? Are organizations that participate in this voluntary program more efficient, reliable, and effective than organizations that do not have the *Standards for Excellence* seal?

LITERATURE REVIEW

Over the past few years, the number of nonprofit organizations around the country has increased at a tremendous rate to approximately 1.6 million (Joint Committee on Taxation). This number is much higher in reality since it does not include churches or other organizations that are not required to register with the IRS; therefore, the precise size of the sector is unknown. In 2002, the sector employed approximately 9.6 million individuals, or about 9% of American workers (Joint Committee on Taxation), and total spending by nonprofit organizations accounted for approximately 12% of the nation's gross domestic product between 1998 and 2002 (Kramer). Though no exact numbers are available, it is clear that nonprofit sector is rapidly growing, becoming a more and more integral part of our society. At the same time, it has become clear that the regulatory and reporting requirements for this growing sector are ambiguous, as there are few universal standards in place and little oversight of this large, growing sector exists. Discussions related to how to improve the disclosure of information and reporting requirements, the lack of enforcement and the need for transparency has been debated by the sector itself, the media, and even the government. One of the central questions to this debate is how to make nonprofit organizations more accountable for the services they provide ensuring that donations are spent for their intended purpose. There is disbelief that nonprofit organizations have the right systems and policies in place to ensure that donations are spent wisely.

One of the main concerns raised is that charities are spending too much money on management costs and too little on programs and services, the very purpose of a nonprofit's existence.

The 990 Form

One of the central problems to the accountability issue is the 990 tax information form nonprofit organizations are required to file annually with the IRS. The form is not a tax return, but an information return, which includes financial statements of revenues and expenses, balance sheets, and other supporting documents related to the organization's charitable purposes and activities (Yetman & Yetman). While most nonprofits are required to file the 990 form, nonprofits with annual incomes less than $25,000, faith-based organizations, and subsidiary organizations, are exempt from filing the form (Ottenhoff).

The intent of the 990 form is to provide the public with the necessary information to evaluate the performance of a nonprofit (Yetman & Yetman). The 990 is the only document that nonprofit organizations file each year, making it the only common denominator for assessing the work of these organizations (Ottenhoff). The form has consequently evolved to be both a primary enforcement vehicle and public information disclosure tool of nonprofit organizations (Pratt). For example, donors and grant makers use the form to evaluate nonprofit organizations and charity watchdog groups use it to rate the effectiveness and efficiency of charities. It is, however, important to note that several studies show that there are significant errors on the 990 returns. Many organizations fail to submit all of the required information and many also make errors when filling out the form (Ottenhoff). Errors that are commonly found on the 990 form include failure to sign the form, failure to include the fiscal year on the form, and failure to submit appropriate schedules (IRS).[1] "Gross figures like total revenues and total expenses are found to be reported accurately, but much of the other data is subject to error" (Bies & Woods). Data on administrative and fundraising expenses are particularly problematic. In addition to the forms being incomplete and inaccurate, many are also filed late (Birchard). Late filings are not useful because the data are stale; however, there are no incentives for nonprofits to file the form on time because they are not punished for filing late and extensions are frequently granted (Keating).

Errors such as the ones outlined above impair the usefulness of the nonprofit financial reports because they confuse the true nature of nonprofits' activities (Yetman & Yetman). For example, a nonprofit organization can understate the amount of fundraising and administrative expenses it has, and in turn, overstate the amount of charitable expenses, causing the organization to appear to be more efficient in delivering programs and services than it really is (Yetman & Yetman). Such errors can easily mislead donors, grant makers and regulators about the success of a particular organization. For example, a study by the Governmental Accounting Office on nonprofit organization oversight shows that over one half of nonprofits that receive donations report zero fundraising expenses. The study further found that about 10% of nonprofits report zero administrative expenses and that many nonprofits fail to properly itemize the amounts of their total revenues, expenses, assets, and

[1] See page 17 for a complete list of the common reporting errors that are evaluated in this research.

liabilities, but rather report significant proportions of those categories in the “other expenses” category (GAO). Failing to report fundraising and administrative expenses is problematic because it is assumed that in order for an organization to raise funds, it has to spend funds, and similarly, in order to operate, an organization should have some administrative expenses. These types of errors are particularly troubling given the trend of using financial ratios to rate the financial effectiveness of nonprofit organizations. If an organization is not disclosing their financial information correctly, these ratios will not accurately capture the true ratio of the organization’s finances, which will either make the organization look better or worse than it actually is.

The Government Accounting office also points out that the expense data included in the 990 form are inadequate for public oversight purposes because charities have considerable discretion in recording their expenses when it comes to fundraising, management, and charitable services. These issues are compounded by the fact that there are no procedures available to measure the accuracy of the information provided by charities on the 990 form (United States General Accounting Office).

Quality reporting on the 990 form is very important because of compliance, public accountability, public relations, policy making, and public relations (qual990.org). Compliance is an important issue because filing an accurate and complete 990 form with the IRS is the law. As mentioned throughout this report, the

990 form is the primary source of data on nonprofit organizations, and therefore, it is important that information is accurate both for reasons of public accountability and for public relation. Furthermore, accuracy on the 990 form is important because it will help policy makers develop the most effective ways of helping the sector while allowing nonprofits to better defend themselves against ill-advised legislative initiatives (qual990.org).

Watchdog Groups

A response to the accountability issue in the nonprofit sector has been the surge in watchdog groups over the past few years that monitor and rate the behavior and performance of nonprofits and make their information available to the public. *Guidestar*[2] offers downloads of the 990 form for any nonprofit that has filed the return with the IRS. *Charity Navigator*[3] uses the tax return data from the 990 forms to rate some thousand charitable organizations on seven financial measures. The Better Business Bureau's *Wise Giving Alliance*[4] also has a charity rating service based on minimum ethical standards in a number of different areas. Together these kinds of organizations improve the transparency of nonprofit organization as more and more information become available to the public. However, making this information public has made it obvious that there are problems of measuring the effectiveness and efficiency of nonprofit organizations. There are no universal standards or indicators in the nonprofit sector for how an organization should be managed or how to measure success. The goal of a nonprofit organization is to meet

[2] http://www.guidestar.org
[3] http://www.charitynavigator.org
[4] http://www.give.org

its mission and provide services, not to make money. However, since the majority of nonprofit organizations rely on public funds and donations to carry out their mission, much attention has been focused on how these organizations spend their money.

Financial Ratios

Some charity watchdogs use financial ratios to evaluate the effectiveness and efficiency of nonprofit organizations and use those ratios to determine if they are using their funds appropriately (GuideStar). There is a general belief that nonprofits should be judged on the merits of their programs, and many also believe that looking at organizations' financial practices reflects their accountability and efficiency (Center on Nonprofits & Philanthropy). As with any practice, there are pro and con arguments for rating and comparing charities on financial information and though it is considered a controversial practice, many donors, policy makers and stake holders use that information to evaluate nonprofits. Two of the most common ratios are program spending ratios and fundraising efficiency ratios. Program spending ratios look at how much of a nonprofit organization's total budget is spent on programs and services, and how much is spent on administration and fundraising expenses (Center on Nonprofits & Philanthropy). Fundraising efficiency ratios look to see how much money an organization spends to raise a dollar (Center on Nonprofits & Philanthropy). These industry averages, or benchmarks, vary among the different watchdog groups. However, the Center on Nonprofits and Philanthropy at the Urban Institute conducted a study on these practices and identified their common practices among them. For program spending ratios, the common benchmark is that at least

65% of a nonprofit's expenses be spent on programs and services (Center on Nonprofits & Philanthropy). For fundraising efficiency ratios, the common benchmark is that no more than 35% of total contributions on fundraising (Center on Nonprofits & Philanthropy).

Proponents of using ratios argue that the use of ratios make it easy to compare charities against each other as well as the industry averages. It also makes it easy for individual nonprofits to calculate their own ratios to see if they meet the industry standards. Supporters further argue these ratios are directly responsive to the demands of donors who wish to understand how nonprofit organizations spend their money.

Opponents of this argument believe that these kinds of ratios do not do a good job of measuring what it is they seek to measure. Nonprofit organizations all have a different mix of fixed and variable costs, which means they have different areas where they are most efficient (Center on Nonprofits & Philanthropy). Different nonprofits have different overhead costs depending on the nature of their program, their size, and their staff (GuideStar). Furthermore, accounting practices may vary among many nonprofit organizations that can make it look like one organization is more efficient than another, when in reality it is just the different accounting practices that are different (GuideStar). Another concern is that these types of ratios encourage competition in a market that rewards low costs of administration and fundraising (Center on Nonprofits & Philanthropy). For example, some smaller and newly established organizations may need to spend more money to raise public awareness of their mission and therefore spend more money than the industry benchmarks. Those who argue against ratios believe that those interested in evaluating the fiscal efficiency of a nonprofit organization should focus on how well that organization delivers its services instead on how they spend their money. However, gaining access to such information, especially when comparing multiple nonprofits is difficult since that information is not made public. Furthermore, there are occasions when ratios are particularly useful and necessary. Financial ratios are useful when comparing organizations that are similar in size with a common mission, when programs and are similar in size, and when tracking an individual nonprofit's progress over time (GuideStar).

Present Situation

Since the 990 forms were made available on the internet in 1998, public access to the information contained in those reports has increased, and consequently, has had a positive impact on the effectiveness and efficiency of the sector as a whole (GuideStar). However, as discussed above, research indicates that a large number of these reports are unreliable; many reports contain errors, and therefore are difficult to use to determine the effectiveness of a nonprofit organization. This realization has sparked numerous efforts to get the report format and related requirements revised; however, any significant changes are years away (Ottenhoff).

The 990 form is therefore the only document currently available that nonprofit organizations are required to file each year. It is consequently the only common denominator available to the public for evaluating and analyzing the work and fiscal efficiency of nonprofit organizations. However, when evaluating the 990 form, it is important to remember that it reflects one aspect of a nonprofit's financial history; it does not include other vital information explaining how the organization frames its mission, goals, and accomplishments, which are the very reasons for nonprofit organizations to exist.

STANDARDS FOR EXCELLENCE

The *Standards for Excellence* program was launched in Maryland in 1998, after a two-year effort by a group of volunteers from the state's nonprofit community to strengthen nonprofit governance and management, while enhancing the publics trust in the nonprofit sector (Standards for Excellence Institute). The program promotes widespread application of a comprehensive system of self-regulation in the nonprofit sector. The centerpiece of the program is the *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector*, an exhaustive code of best practices that sets forth 55 standards in eight areas of nonprofit management.[5] Through these standards, an organization will understand how it should operate and if adopted, ensure the organization is above average industry standards. Initially, the program was only intended for Maryland's nonprofit organizations, but word spread quickly throughout the nonprofit community and as a result, the Maryland

[5] For the full text and complete description of the *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector*, visit www.standardsforexcellence.org.

Association of Nonprofit Organizations launched the *Standards for Excellence* institute to promote the standards nationwide.[6] The program provides educational resource packets, clinics and person-to-person technical help to assist groups interested in understanding and implementing the individual standards (Berns). The goal of the program is to encourage charities to regulate themselves and thus increase the trust in them by the public, and by potential donors and volunteers (Siska).

In addition to educating the sector on these universal "gold-standards" the *Standards for Excellence* offers a voluntary, leadership-based, certification program for nonprofit organizations interested in demonstrating that they abide by the *Standards for Excellence* (Standards for Excellence Institute). In order to receive certification, an organization has to submit a written application, include extensive documentation, and pay an application fee.[7] A panel of trained independent peer reviewers assesses the applicant's practices and determines if they meet the standards (Standards for Excellence Institute). The application process is very rigorous and can take anywhere from a few weeks to a year to achieve (Siska). If an organization meets the standards, it is given the *Seal of Excellence*[8] to display as a symbol of trust for the public and donors to recognize that an organization is credible and fiscally

[6] To date, six other nonprofit state associations have adopted the program and are promoting the standards to their nonprofits: Georgia Center for Nonprofits, Idaho Nonprofit Development Center, the Giving Trust (Illinois), Louisiana Association of Nonprofit Organizations, North Carolina Center for Nonprofits, Ohio Association of Nonprofit Organizations, and Pennsylvania Association of Nonprofit Organizations.
[7] The application fee is $400 for members ($250 for members with revenue below $300,000), and $1,500 for nonmembers (Maryland Association of Nonprofit Organizations)
[8] The *Standards for Excellence* logo is only licensed for use by the certified organizations and replication partners. They pay a licensing fee and sign an agreement to be able to display it, which is why it cannot be included in this report. To see what this symbol looks like, visit www.standardsforexcellence.org

responsible. Organizations who display the seal must continue to show that they meet standards, and therefore, must go through the recertification process every three years. If an organization chooses not to be recertified, they are no longer allowed to display the seal of excellence. If a certified charity does not live up to the standards, the seal can be revoked if an investigation proves that the standards are not up to par (Siska). These stringent practices have been put in place to ensure the credibility of the *Standards for Excellence* program.

The Nonprofit Research Fund conducted a survey among certified and non-certified Maryland nonprofits in June 2000 to learn the impact of the *Standards for Excellence* program. Their research indicates that the *Standards for Excellence* program might be improving nonprofit governance, management and organizational practices, making Maryland nonprofit more accountable. The study found that certified organizations improved their governance, management, and organizational practices at a higher rate than the non-certified organizations.

RESEARCH QUESTION

The main research question was: does voluntary participation in the *Standards for Excellence* program improve the reporting quality and financial ratios of nonprofit organizations? In order to determine this, the following questions were examined:

- Did the errors vary before and after an organization received the *Standards for Excellence* certification?
- Did errors vary between the organizations that received the *Standards for Excellence* certification the comparison group?

- Did the difference in errors between the certified and non-certified organizations vary?
- Did financial ratios vary before and after an organization received the *Standards for Excellence* certification?
- Did financial ratios vary between the organizations that received the *Standards for Excellence* certification and the comparison group?
- Did the difference in financial ratios between the certified and non-certified organizations vary?

METHODOLOGY

Because the 990 form is the only universal reporting form available for the nonprofit sector, it is the only source available for data analysis. However, given the findings described earlier in this paper, it is important to remember that an analysis of the 990 forms is limited because it does not have give a complete picture of a nonprofit's operations. The objective of this analysis was to determine if the voluntary *Standards for Excellence* program improves reporting qualities and financial ratios of nonprofit organizations. To determine this, the 990 forms of charities that participated in the Maryland *Standards for Excellence* program was examined the year before and the year after they received certification to see if there are any improvements in reporting quality and financial ratios. The analysis had to be limited to evaluating organizations that received their certification between 1999 and 2003 in order to be able to evaluate the 990 form of organizations after they received their S*tandards for Excellence* certification.[9] Given these and other limitation, there

[9] To date, the 2005 990 forms are not available for the organizations who received their certification in 2004, and thus, a posttest and could not be performed for those organizations.

were 31 organizations available for analysis that received their *Standards for Excellence* certification in 2003 or earlier.[10] These organizations are the treatment group and they were matched to 31 Maryland nonprofit organizations that did not have the *Standards for Excellence* certification to serve as the comparison group. The comparison group was used in this design to better determine the effects of the *Standards for Excellence* program.[11] [12] The 990 forms of the certified organizations was compared to before and after they received the *Standards of Excellence* certification and the 990 forms of the comparison group was evaluated for the same years as their matched certified organizations.

Research design

The research design for this analysis is a quasi-experimental design of a before and after comparison with a comparison group.

Figure 1: Research Design

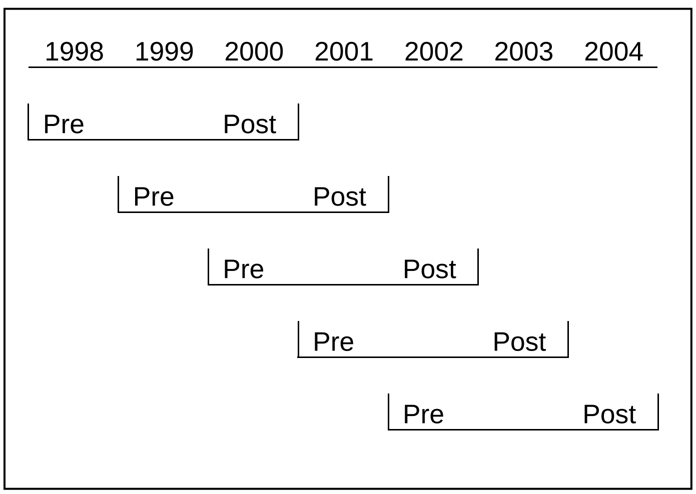
$$\boxed{\begin{array}{c} O_0 \; X \; O_1 \\ \hline O_0 \quad\;\; O_1 \end{array}}$$

The organizations in the treatment group received their certification (treatment) between 1999 and 2003. Consequently, the design of the analysis is done over

[10] There were a total 39 organizations that received their certification in 2003 or earlier, but for some of them the 990 forms were not available, in a few other cases the 2004 990 form had yet to be filed, and in a few cases, there was no comparison organization that could be found.
[11] The nonprofits in the comparison group were matched based on the NTEE code, a classification system developed by The National Center for Charitable Statistics. It divides nonprofit organizations into 26 major groups under 10 broad categories. The match will be based on the NTEE code, location by state, and the organization's size (revenue). In this manner, the organization in the comparison group will be as similar as possible to the organizations that are being evaluated in the treatment group.
[12] See Appendix A for a list of the organizations included in this study.

several years with different years for the pretest and posttests depending on what year the organization received its certification. For example, for the organizations that received their certification in 1999, the pretest is the 1998 990 form and the posttest is the 2000 990 form, with the same forms being evaluated for the matched organizations in the comparison group. For the organizations that receive their certification in 2000, the pre test is the 1999 990 form and the posttest is the 2001 990 form, etc.

Figure 2: Pretest & Posttest Design for Treatment and Comparison Groups



The research evaluated the quality of reporting and financial ratios on the 990 form for the certified and non-certified groups. The data for these organizations were examined to see whether reporting errors and financial ratios were different between certified organizations and non-certified organizations. Comparisons were made among the groups and between the groups to see whether errors and ratios differ and how they changed. The t-test[13] was used to address the question of the relationship between and among the groups, by testing the difference and the change in errors and ratios among and between the certified organizations and the non-certified organizations. The t-test was also used to test the difference in the change in errors between the certified and non-certified organizations. There were two null hypotheses associated with this analysis, one for errors and one for the financial ratios.

1. *The Standards for Excellence program does not affect how accurately an organization fills out the 990 form.*
2. *The Standards for Excellence program does not improve the financial ratios of a nonprofit organization.*

The two alternative hypotheses are:

3. *The Standards for Excellence program does affect how accurately an organization fills out the 990 form.*
4. *The Standards for Excellence program does improve the efficiency ratios of a nonprofit organization.*

If the errors had decreased or were eliminated over time for the certified organizations and similar results are not found in the comparison group, then it can be inferred that the *Standards for Excellence* program had an effect on the organizations that received certification. However, if there were no changes, those assumptions become invalid. If however improvements were present in the non-certified

[13] The t-test of statistical significance will be used to calculate the statistical significance for these data. This technique tests the null hypothesis that there is no difference in errors and financial ratios between organizations who receive the *Standards for Excellence* certification and similar organizations that did not receive certification. A t distribution can be used to identify the value that the observed t statistic should exceed to support the conclusion that the observed differences in the sample means with and between the different groups is large enough the generalize to the populations from which the program participants were drawn (Wholey et al.)

organizations as well, then some factor/s other than the S*tandards for Excellence* program are likely causes of the change. Similarly, if the efficiency ratios improved for the certified organizations while the ratios for the non-certified organizations do not, then it can be inferred that the *Standards for Excellence* program had an effect on the organizations that received certification. If there were no changes in either of the groups, then no assumptions can be made. If however there were improvements in both the certified and non-certified organizations, then some factor/s other than the *Standards for Excellence* program are the cause for the change in efficiency ratios.

Limitations

The pretest and posttest design outlined above is susceptible to a number of potential threats to internal validity. The most likely threats present in this design are selection bias, history threat, maturation threat, and instrumentation threat. Because the certified organizations are self selected, there is a possibility that these organizations have fewer errors and better financial ratios for to begin with since this group has to have superior governance and management practices in place in order to gain certification. One way to test for this threat is to compare the means of the pretest of the certified and non-certified organizations to see if they are similar or different. If they are very different, then there is a possibility of selection bias, but if they are not, the comparison group serves as a way to protect against this type of threat.

The history threat is present because the pretest and posttests are collected over a period of two years, which means that other events may have occurred during that time, which could have an effect on either the pretest and/or posttest. To try to guard against this threat, the matched organizations in the comparison group are tested over the same time periods as the organizations that received certification. Nonetheless, there is the possibility that events occurred with a certified organization that is not related to the *Standards for Excellence* program that may affect the results of the posttest. Similarly, it is reasonable to believe that a non-certified may have benefited from the *Standards for Excellence* program without being part of the program. The Maryland Association for Nonprofit Organizations sent out literature on the standards and principles outlined in the *Standards for Excellence* program to all Maryland nonprofits (Carnegie Results), making it feasible that an organization benefited and adhered to the *Standards* without receiving certification.

The possibility that a maturation threat may also be present exists due to the two-year timeframe over which the pretest and posttests took place, making it possible for an organization to make fewer errors on the 990 form and have higher financial ratios as a result of the natural maturation and growth of an organization. A maturation threat is also possible because of the variance in the number of years these organizations have been in existence. Some of the organizations in this analysis are much younger or older than some of the other organizations; there is no feasible way to protect against this type of threat.

The final plausible threat to this study is an instrumentation threat. The 990 form has not changed much between 1998 and 2004; however, the instructions on how to fill in the form have changed and been updated regularly in an effort to try to improve the reporting quality on the form. Therefore it is possible that an organization scores better on the posttest than the pretest because of the changes in the instructions, not necessarily because of adherence to the *Standards for Excellence* program.

There are few remedies available to improve the design and methodology of this research due to the design of the study other than to extend the number of pretests and posttests examined for each organization. Expanding the number of pretests and posttests for each organization is not feasible at this point because the study needed to include as many organizations as possible to have some statistical power. However, in the coming years, it is possible to extend the posttest on all of these organizations to improve the research design. Adding more organizations to the study could strengthen future research. This will be possible in a few years when a posttest can be performed on organizations that received certification in 2004.

In addition to the threats to internal validity outlined above, several other weaknesses of the study need to be pointed out. This study only evaluates nonprofits in one state, and therefore, gives little validity to generalizing the findings on a national level. Nonprofit state associations in Louisiana, Ohio, and Pennsylvania have been certifying nonprofit organizations in their states since 2003; however, data on these organizations was insufficient and consequently made it impossible to be able to perform a pretest and posttest on them, which is why these organizations are not included in this study. As a result, this study was not able to capture and test all the organizations that have received the *Standards for Excellence* certification.

The other drawback to this research is that it does not test the entire range of standards within the *Standards for Excellence* program. The program has 55 standards in eight different categories, few of which can be examined on the 990 form. This study is therefore limited in being able to test the treatment effect of the *Standards for Excellence* program for the commonly known errors on the 990 form and the financial ratios, and not other significant areas for evaluation of success and efficiency, such as governance, accountability, management and effectiveness that is included in the *Standards for Excellence*. However, given that the goal of the *Standards for Excellence* program is to improve management, governance and organizational practices, it is reasonable to assume that certified organizations will have fewer errors on their 990 forms and have financial ratios within the industry standards.

Common Reporting Errors

- Failure to fill out the fiscal year of the organization on the return (GAO).
- Failure to submit the form within the filing deadline. Each filing organization is required to file "by the 15th day of the 5th month after" its fiscal year ends (GuideStar). If the organization did not file within the deadline there should be an

extension application for a 90-day extension (GuideStar), failure to request an extension violates the regulations of filing the 990 form.

- Failure to sign the return (IRS). A large amount of organizations fail to sign their forms, which is an easy way to detect error.
- Failure to report fundraising expenditure when reporting fundraising revenue. About 50% of organizations report 0 fundraising expenses even though they report revenue from fundraising (Yetman & Yetman). Previous research points to the fact that this is most likely an error (Yetman & Yetman).
- Failure to complete Schedule A attached to the 990 from (IRS).[14]
- Failure to complete Schedule B attached to the 990 form.[15] Since 2001, all organizations must complete and attach Schedule B or certify that the organization is not required to attach schedule B by checking the appropriate box on the form (IRS).
- Failure to provide additional voluntary information on parts III & IV.[16] This is not required, but it is in an organization's best interest to provide this information since there is an assumption that increased information improves the decision usefulness of the 990 form (Ottenhoff).

[14] Schedule A requires nonprofit organizations to list the salaries and benefits awarded to top officials and to top-paid independent contractors. This part of the form also focuses on advocacy and contains additional questions about financial issues not covered on the 990 form itself (qual990.org) Consequently, submitting this form is part of the accountability and transparency of its financial dealings required to be disclosed by nonprofit organizations.

[15] Schedule B was added to the 990 form to capture lists of individual contributors.

[16] The intent of the 990 form to provide the public with necessary information to evaluate the performance of a nonprofit serves as the standards for a decision usefulness context to financial reporting for the 990 form.

Financial Ratios

The ratios used for this analysis are those most commonly used to evaluate the financial efficiency and effectiveness of in the nonprofit sector.

- *Program Spending Ratio*: The reason nonprofit organizations exist is to provide some kind of program and or service to the public. It is therefore believed that a majority of an organization's revenue should be spent on programs and direct service activities. The industry standard is 65% (Center for Nonprofits and Philanthropy). To determine this, programs and services expenditure is compared to total expenditure.
- *Administrative Expenses*: Nonprofit organizations, like other organizations have administrative expenses, which should remain reasonable and in line with the organization's overall expenses. Consequently, this is determined by comparing the organization's administrative expenses to its total expenses. There is no industry standard for administrative expenses other than the belief that the lower it is the better. However, given that programs and services are at 65%, it is reasonable to assume that administrative expenses should be below 35% as a part of expenditure will be used for fundraising expenses.
- *Fundraising Expenses*: Charities do not exist to raise money, but money must be raised in order to fund their operating and program expenses. Donors do not give to organizations based on their ability to raise money; therefore, expenditure on fundraising is expected to be kept to a minimum. Like administrative expenses, there is no industry standard for the fundraising ratio other than the belief that lower ratios are better because it leaves more money for an organization to

provide programs and services. As indicated above, given that programs and services should comprise at least 65% of total expenses, it is reasonable to assume that fundraising expenses should be less than 35% since total expenditure funds not used for programs and services are allocated between administrative and fundraising expenditure.

- *Fundraising Efficiency:* Nonprofit organizations have to spend money to raise money; however, spending needs to be done in an efficient manner. This ratio is gauged by comparing an organization's fundraising expenses to the amount of donations it receives in total contributions; the industry standard for this is 35% For every dollar raised, you should not spend more than $0.35 (Center for Nonprofits and Philanthropy).

RESULTS/ANALYSIS

Errors

Few changes in errors were observed between the pretest and posttest for the certified organizations; however, the analysis found that errors did vary both among the pretest and posttest when comparing the certified and non-certified groups. Table one shows the result of the data collected from the certified and non-certified organizations on errors, as well as the results from the t-tests that were conducted on those results. Table two on the following page shows the difference in the change for the errors among and between the certified and non-certified organizations. Figures three and four on the following pages display the number and type of errors for the certified organizations and the non-certified organizations by category in a graph for the pretest and posttest.

Table 1: Summary of Errors

	Certified Group				**Non-Certified Group**				**p-value**				
	Pre-test Errors	Post-test Errors	Pre-test Mean	Post-test Mean	Pre-test Errors	Post-test Errors	Pre-test Mean	Post-test Mean	Pretest Certified vs. Non-Certified Groups	Posttest Certified vs. Non-Certified Groups	Certified Group Pretest vs. Posttest	Non-Certified Group Pretest vs. Posttest	Diff in change between Cert & Non-Cert.
Fiscal Year Error	9	8	0.710	0.742	14	14	0.548	0.533	0.195	0.0927**	0.780	0.908	0.325
Filing Error	1	0	0.050	0.673	2	3	0.093	0.619	1.000	0.598	0.295	0.888	0.709
Signature Error	1	2	0.968	0.935	0	0	1.000	1.000	0.321	0.156	0.562		0.570
Fundraising Error	17	17	0.452	0.452	10	10	0.677	0.677	0.0751**	0.0751**	1.000	1.000	1.000
Schedule A Error	0	0	1.000	1.000	0	0	1.000	1.000					
Schedule B Error	9	9	0.609	0.548	9	18	0.609	0.419	1.000	0.317	0.665	0.018	0.440
Additional Info Error	11	11	0.371	0.452	19	19	0.210	0.226	0.0379*	0.0071*	0.326	0.832	0.346
Summary of Errors	48	49	4.500	4.500	54	64	4.339	4.339	0.474	0.474	0.391	0.949	0.382
n	31	31			31	31			62	62	62	62	62

* Significant at the 95% confidence level

** Significant at the 90% confidence level

Table 2: Differences in Errors

Certified Organizations

	Fiscal Year	Filing	Sig	Fund-raising	Sched. A	Sched. B	Extra Info	Sum
Pretest	9	1	1	17	0	9	11	48
Posttest	8	0	2	17	0	14	8	49
Difference	-1	-1	1	0	0	5	-3	1

Non-Certified Organizations

	Fiscal Year	Filing	Sig	Fund-raising	Sched. A	Sched. B	Extra Info	Sum
Pretest	14	2	0	10	0	9	19	54
Posttest	14	3	0	10	0	18	19	64
Difference	0	1	0	0	0	9	0	10

Pretest

	Fiscal Year	Filing	Sig	Fund-raising	Sched. A	Sched. B	Extra Info	Sum
Certified	9	1	1	17	0	9	11	48
Non-Cert	14	2	0	10	0	9	19	54
Difference	5	1	-1	-7	0	0	8	6

Posttest

	Fiscal Year	Filing	Sig	Fund-raising	Sched. A	Sched. B	Extra Info	Sum
Certified	8	0	2	17	0	14	8	49
Non-Cert	14	3	0	10	0	18	19	64
Difference	6	3	-2	-7	0	4	9	15

Figure 3: Errors for Certified Organizations

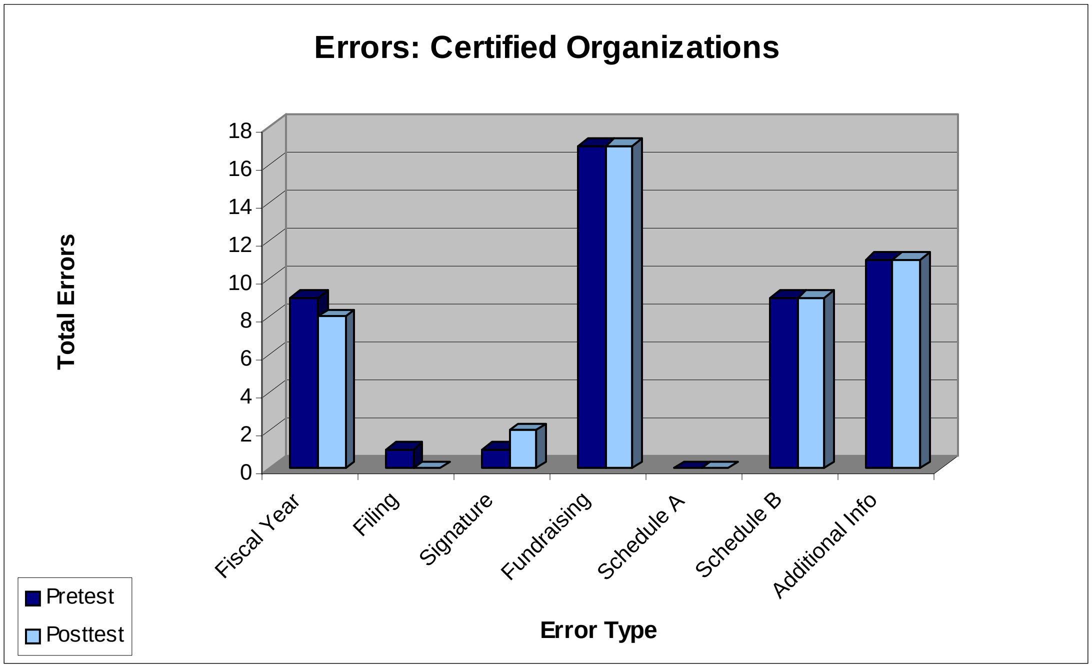
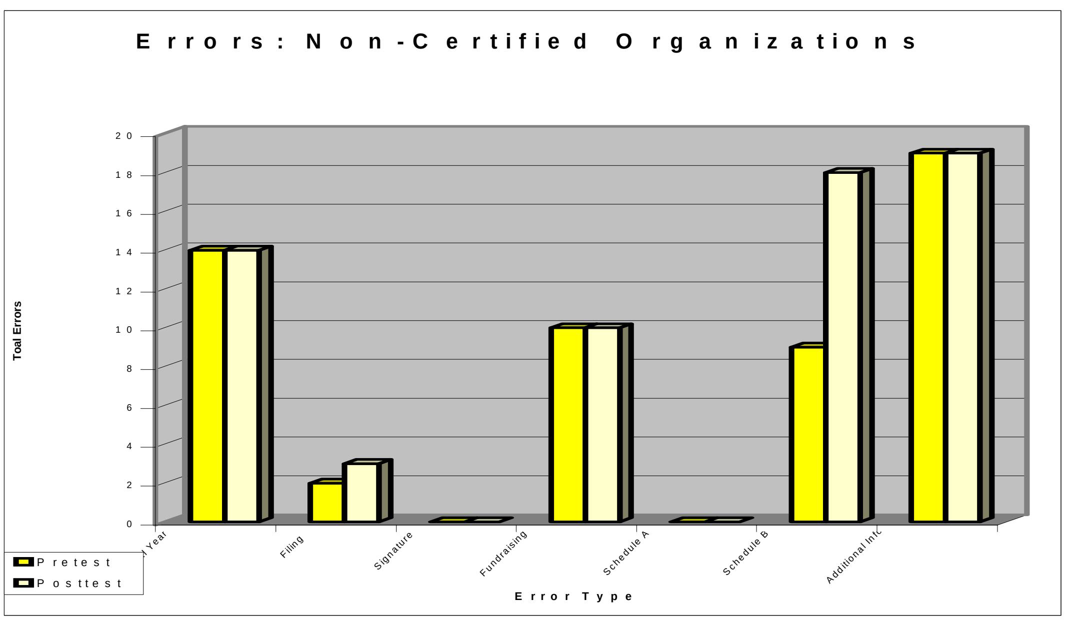


Figure 4: Errors for Non-Certified Organizations



The fiscal year error decreased for the certified organizations from nine (29%) to eight errors (26%) while for the non-certified organizations the fiscal year errors remained at 14 (45%) both for the pretest and the posttest years. The mean difference in the fiscal year error for the posttest of the certified organizations (8) and the comparison group (14) is statistically significant at the 90% confidence level, indicating that for this type of error, the *Standards for Excellence* program most likely had a positive treatment effect leading to the conclusion that being certified reduced the likelihood of an organization failing to include its fiscal year on the 990 form. However, when testing for the difference in change between the certified and non-certified organizations for the fiscal year error, no statistical difference could be determined.

The filing error decreased from one error (3%) at the pretest to zero errors at the posttest for the certified organizations. For the non-certified organizations, the filing error increased from two errors (6%) for the pretest to three errors (10%) for the posttest. The difference between the errors for the certified and non-certified organizations was one error for the pretest and three errors for the posttest, neither of which is considered a statistical significance. Similarly, no statistical significance can be determined in the difference in the change between the certified and non-certified organizations.

The certified organizations had one signature error (3%) for the pretest and two (6%) for the posttest, an increase of one. The non-certified organizations had no signature errors for either the pretest or the posttest. Although there is a finding of a difference in the number of errors between the pretest and posttest for the signature error, they are not considered statistically significant. Neither could a statistical significance be found when testing for the difference in change for the signature error. It is however interesting to note that the certified organizations, which is believed to have superior governance and management skills had errors that the non-certified organizations did not. It is also interesting to note that these errors increased at the posttest level for the certified organizations.

The fundraising error category is the single category where the error is less for the non-certified organizations than for the certified organizations. The non-certified organizations had ten fundraising errors (32%) both for the pretest and posttest, while the certified organizations had 17 errors (55%) for the pretest and posttest. This difference is significant at the 90% confidence level both for the pretest and for the posttest, suggesting that the groups are not equivalent, and therefore are not useful in comparing the fundraising error since the difference for the pretest was significant. It is interesting to note though that not only were the errors significantly larger for the certified organizations, but that for this error did it did not improve at all for these organizations. One of the eight benchmarks of the *Standards for Excellence* program is about fundraising stating that “an organization’s fundraising program should be maintained on a foundation of truthfulness and responsible stewardship” (Standards for Excellence Institute). Consequently, it would be reasonable to assume that the organizations in the certified organizations would be less prone to this error than those in the non-certified organizations, but this study proves otherwise. Although there is a significant difference between the pretest and posttest for the fundraising errors for the certified and non-certified organizations, there is no statistical significance for the difference in change between the two groups.

The only category that did not have any errors for either the certified and non-certified organizations was the Schedule A error. All organizations successfully filed their Schedule A with their 990 form. This finding is noteworthy due to the fact that the IRS has identified the failure to file a Schedule A to be common; however, none of the 62 organizations in this analysis failed to submit the required paperwork on this part of the 990 form. Since none of the organizations had an error in this category, there was no need to test the change for the Schedule A error.

Only 23 of the organizations in the pretest groups were required to fill out the Schedule B attached to the 990 form.[17] All organizations were required to file Schedule B for the posttest. For the certified and non-certified organizations 9 (32%) organizations failed to file the Schedule B for the pretest. The errors for filing Schedule B remained 9 (29%) for the certified organizations at the posttest, while it increased to 18 (58%) for the non-certified organizations. It is important to note that although the number of errors remained constant for the pretest and posttest, this number actually signifies a decrease since only 23 organizations in each group were required to file Schedule B for the pretest, but all 31 certified and non-certified

[17] Since 2001, all organizations must complete and attach Schedule B or certify that the organization is not required to attach schedule B by checking the appropriate box on the form (IRS).

organizations had file Schedule B for the posttest, as indicated by the percentages shown. This difference is not statistically significant, but the non-certified organizations had twice as many errors for filing Schedule B than the certified ones. Similarly, no statistical significance can be determined for the difference in change for the Schedule B error between the certified and non-certified groups. Though the results are not statistically significant, it appears that the certified organizations are more successful in following the directions and requirements for filing the 990 form regarding Schedule B than the non-certified organizations.

The last measured error for this analysis is that related to the lack of additional information. Supplying additional information is not required on the 990 form, but an organization is invited and encouraged by the sector to do so if it wishes. There was a significant difference between the certified and non-certified organizations in this category both for the pretest and posttest. There were 11 errors (35%) both for the pretest and posttest for the certified organizations, and 19 errors (61%) for the pretest and posttest for the non-certified organizations. The difference between the errors for the certified and non-certified organizations for the additional information error is statistically significant at the 95% confidence level. However, there is no statistical significance when testing for the difference in change between the certified and non-certified organizations. Given the significant difference for this error, there is a chance that there is selection bias for this category since the difference is at the pretest level, before the certified organizations received their certification. Consequently, it appears that certified organizations may already be reporting and performing at a higher level than non-certified organizations, making them eligible to receive the *Standards for Excellence* certification while the other organizations did not.

Looking at the total number of errors observed and analyzed, only a minor difference for the certified organizations between the pretest and posttest was observed, but differences did exist compared to the non-certified organizations. The total number of errors for the certified organizations was 48 for the pretest and 49 for the posttest. For the non-certified organizations there were 54 errors for the pretest and 64 for the posttest. These differences are not statistically significant, suggesting that the certified and non-certified organizations are compatible and useful for the purpose of comparison for this research since they display similar overall measurement characteristics at the pretest level. However, given that there is no statistical significance for the difference between the certified and non-certified organizations for the posttest, the data indicates that an actual treatment effect cannot be determined for the certified organizations. When testing for statistical difference in the change in total errors between the certified and non-certified organizations, none could be determined. The analysis of the data therefore suggests that the *Standards for Excellence* program does not significantly improve the overall reporting qualities of nonprofit organizations. The fiscal year error was the only error displaying a treatment effect for the certified organizations; none of the other types of errors were able to demonstrate such an effect.

Ratios

There were few changes of variations in the financial rations between the pretest and posttest for the certification group; however, efficiency ratios did vary somewhat both among both the pretest and posttest analysis when comparing the certified and non-certified organizations. Table three shows the result from the data collected from the certified and non-certified organizations on financial ratios, as well as the results from the t-tests that were conducted on those results. Table four shows the difference in the change for the efficiency ratios among and between the certified and non-certified organizations. Figure five and six displays the average ratios for the certified and non-certified organizations for the pretests and posttests.

Table 3: Summary of Financial Ratios

	Certified Group				**Non-Certified Group**				**p-value**				
	Pre-test Ratios	Post-test Ratios	Pre-test Mean	Post-test Mean	Pre-test Ratios	Post-test Ratios	Pre-test Mean	Post-test Mean	Pretest Certified vs. Non-Certified Groups	Posttest Certified vs. Non-Certified Groups	Certified Group Pretest vs. Posttest	Non-Certified Group Pretest vs. Posttest	Diff in change between Cert & Non-Cert.
P & S Ratio	0.58-0.97	0.58-0.98	0.825	0.834	0.07-1.00	0.44-1.00	0.816	0.844	0.808	0.719	0.688	0.456	0.477
Admin Ratio	0.00-0.37	0.00-0.31	0.131	0.117	0.00-0.43	0.00-0.53	0.149	0.139	0.470	0.346	0.499	0.718	0.811
Fundraising Ratio	0.00-0.06	0.00-0.17	0.038	0.042	0.00-0.09	0.00-0.13	0.016	0.017	0.029	0.018	0.710	0.920	0.517
Fundraising Efficiency	0.00-0.57	0.00-0.33	0.082	0.060	0.00-0.20	0.00-0.57	0.032	0.044	0.0503*	0.513	0.043	0.059	0.309
n	31	31			31	31			62	62	62	62	62

* Significant at the 95% confidence level

Table 4: Differences in Financial Ratios

Certified Organizations					Non-Certified Organizations				
	P&S	Admin	Fund 1	Fund 2		P&S	Admin	Fund 1	Fund 2
Pretest	0.82	0.13	0.04	0.08	Pretest	0.82	0.19	0.02	0.03
Posttest	0.83	0.12	0.04	0.06	Posttest	0.84	0.14	0.02	0.04
Difference	-0.01	0.01	0.00	0.02	Difference	-0.03	0.06	0.00	-0.01
Pretest					**Posttest**				
	P&S	Admin	Fund 1	Fund 2		P&S	Admin	Fund 1	Fund 2
Certified	0.82	0.13	0.04	0.08	Certified	0.83	0.12	0.04	0.06
Non-Cert	0.82	0.19	0.02	0.03	Non-Cert	0.84	0.14	0.02	0.04
Difference	0.01	-0.06	0.02	0.05	Difference	-0.01	-0.02	0.03	0.02

Figure 5: Financial Ratios for Certified Organization

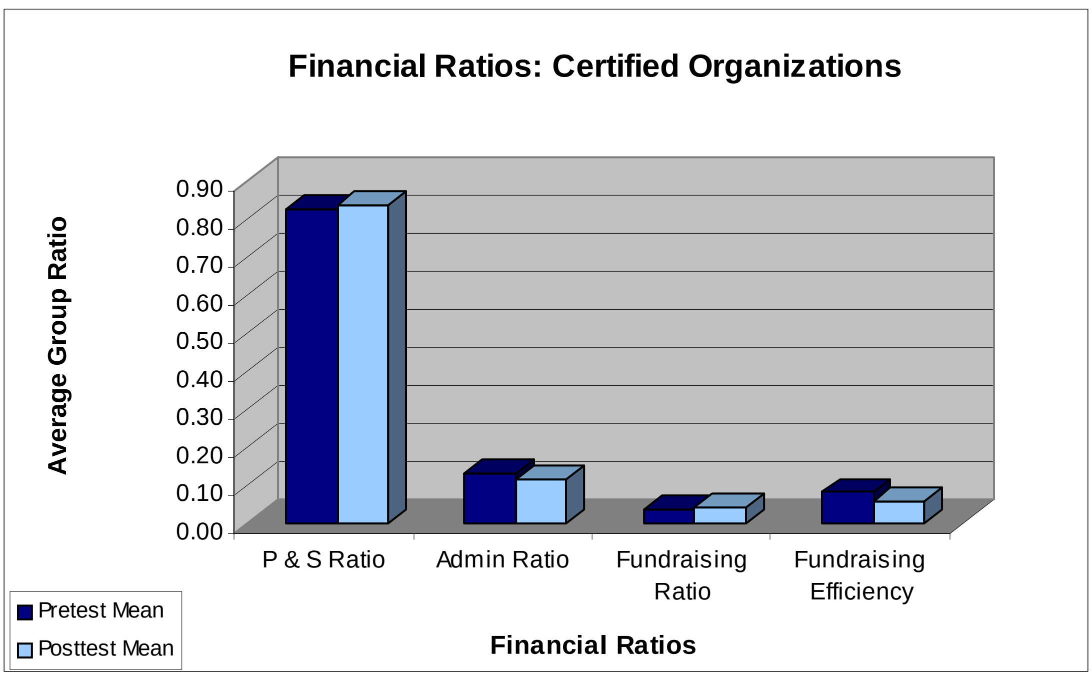
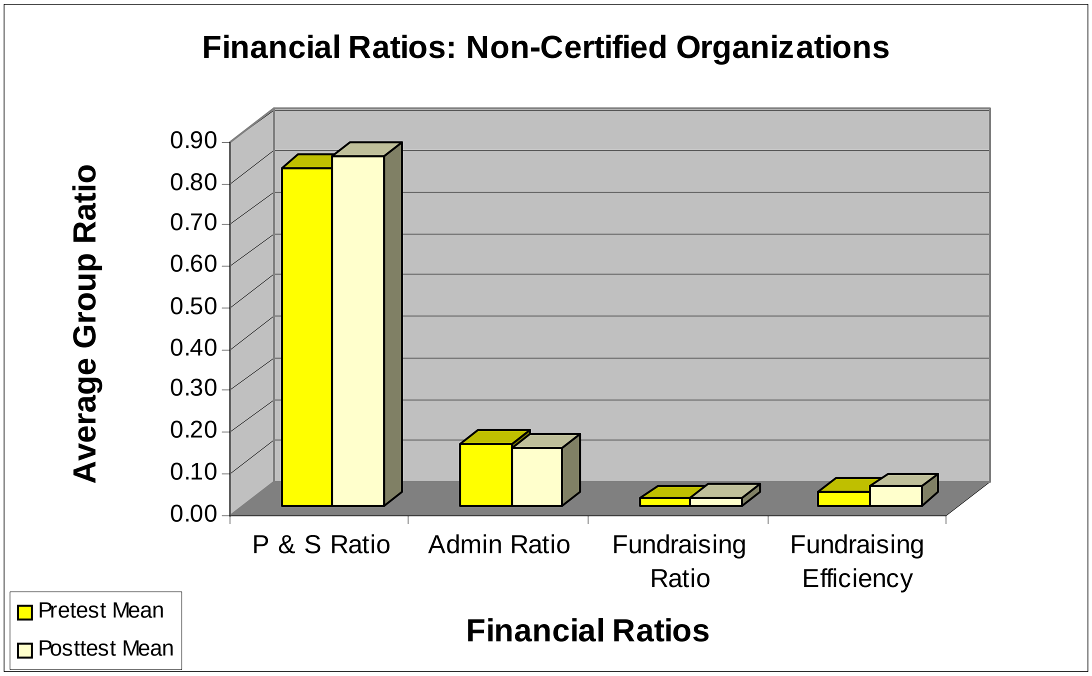


Figure 6: Financial Ratios for Non-Certified Organization



The average financial ratios for the programs and services category are well above the industry minimum standards of 65% for both in the certified and non-certified organizations. For the certified organizations, the pretest average was 82% while the posttest average was 83%. For the non-certified organizations, the pretest average was also 82% while the posttest average was 84%. Though a slight improvement for the certified organizations was noted, it is not statistically significant; neither is the difference in the change between the certified and non-certified organizations statistically significant. It is interesting to note here that both the certified and non-certified organizations increased their programs and services financial ratios over time. This effect could be due to organizational maturation due to the passage of two years between the pretest and posttest, and consequently, the organizations may have improved the way they are governed and managed. Another possible explanation for the improved ratios over time may be due to a history threat, such as the rise in nonprofit watchdog groups that occurred in the late 1990's and early 2000. Many of the watchdog groups stressed the importance of these ratios and started ranking nonprofit accordingly. This could have initiated the movement for nonprofit organizations to improve their fiscal responsibility for program and service deliver for both the treatment and comparison groups.

The administrative ratios saw a decrease in both the certified and non-certified organizations between the pretest and posttest. The pretest ratio for the treatment certified organizations was 13% and for the non-certified organizations it was 14%. The posttest ratio for the administrative category decreased to 12% for the certified organizations and it decreased to 14% for the non-certified organizations. None of these improvements can be considered statistically significant, nor can a statistical significance be found in the difference in change between the certified and non-certified organizations. Once again it is possible that the cause of the improvement in these ratios for both the certified and non-certified organizations may be directly related to the maturation effect or due to of a history threat, such as the rise in watchdog groups and the heightened media attention around the Washington D.C. area about sound governance for nonprofit organizations (Birchard).

The fundraising ratio saw no changes between the pretest and posttest for either the certified or non-certified organizations. For the certified organizations, the fundraising ratio remained at 4% while it was only 2% for the non-certified organizations. These differences are not significantly different. Because there is no change in the fundraising ratios, there was no need to test for a significant difference in the change between the two groups. These findings may point to the fact that certified organizations spend more money on fundraising than non-certified organizations, but neither one of the groups are spending large sums on fundraising expenses; all of the organizations are well within the recommended ratios for this category.

There was however a statistical significant difference between the fundraising efficiency ratio between the certified and non-certified organizations for the pretest at the 95% confidence level. However, when testing for a statistical significance in this change between the certified and non-certified organizations, none could be determined. The pretest for the certified organizations was 8% (8 cents/dollar raised) while it was only 3% (3 cents/dollar raised) for the non-certified organizations. Both of these figures are well within the accepted standards for raising revenue funds. As indicated by the fundraising ratio discussed above, it appears that certified organizations spend more money on fundraising than the non-certified organizations; these findings are consistent with that assumption. These results show that the certified organizations spend more money per dollar they raise than the non-certified organizations. There is no significant statistical difference for this ratio for the posttest. Nonetheless, there is still a difference in the ratios among the two groups. The fundraising efficiency ratio for the certified organizations decreased to 6% (6 cents/dollar raised) for the posttest, while it increased to 4% (4 cents/dollar raised) for the non-certified organizations. Again, these ratios are well within the acceptable limits.

Overall, using this methodology, no treatment effect can be proven for the organizations that received their *Standards for Excellence* certification. The limitations of the research data available are not adequate to determine that voluntary participation in the *Standards for Excellence* program improves the financial ratios of a nonprofit organization.

SUMMARY

The purpose of the *Standards for Excellence* program is to improve the governance and management of nonprofit organizations. Given these goals, it seems reasonable to assume that certified organizations would have fewer errors on their 990 forms and possible improved financial ratios compared to nonprofits that have not received the certification. The research findings for this paper however cannot support that assumption. The data examined shows that voluntary participation in the *Standards for Excellence* does not improve the reporting quality or the financial ratios of nonprofit organizations. However, it is important to note that this does not mean that the *Standards for Excellence* program is not effective in achieving its goals of enhancing governance and management practices of nonprofit organizations. In order to test that, some other form of research such as evaluating the organizations' policies and procedures, and other program and management documents, would have to be completed. The results of this study points to the fact that the *Standards for*

Excellence program does not resolve the reporting problems related with the 990 form that is a widespread issue throughout the nonprofit sector. Some other solution not examined in this research will have to be found to remedy the problem with the quality of information disclosed on the 990 form. However, changing the 990 form to eliminate errors does not solve the issues related to watchdog groups and the public using financial ratios as indicators of nonprofits' success and efficiency. The practice of using financial ratios is a widespread practice, and although it is considered controversial by many in the industry, this study demonstrates there are times when using those kinds of ratios are beneficial and useful. The nonprofit sector together with these watchdog groups needs to do a better job in educating the public, stakeholders, and policy makers about the usefulness and implications of these ratios and find a solution how to better portray and measure the success and effectiveness of nonprofit organizations.

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APPENDIX A: ORGNAIZATIONS IN STUDY

Certified Nonprofits	Pretest	Posttest	Non-Certified Nonprofits
Fuel Fund of Maryland	1998	2000	Echo House Multi-Service Center
Interfaith Housing Alliance	1998	2000	Montgomery County Coalition for the Homeless
Maryland Food Bank	1998	2000	Lexington Market Inc
Abilities Network	1999	2001	Athelas Institute Inc
Eastern Shore Land Conservancy	1999	2001	American Chestnut Land Trust, Inc
Friends of the Family	1999	2001	Hartford County Partnership for Families, Inc
The Coordinating Center	1999	2001	Warwick Manor Behavioral Health Inc
United Way of Central Maryland	1999	2001	Jewish Federation of Greater Washington
Advocates for Children & Youth	2000	2002	Maryland Crime Victims Resource Center, Inc
Crossroads Community	2000	2002	Institute for Behavior Resources
Housing Unlimited	2000	2002	Supported Housing Developers, Inc
Humanim	2000	2002	VESTA, Inc
Maryland Association of Community Services for Persons with Developmental Disabilities	2000	2002	National Alliance for Caregiving
Prince Georges Child Resource Center	2000	2002	Second Home, Inc
Star Community	2000	2002	Deaf Independent Residences, Inc
Women Entrepreneurs of Baltimore	2000	2002	Washington Village-Pigtown Neighborhood Planning Council, Inc
YWCA of Annapolis and Anne Arundel County	2000	2002	YMCA of Cecil County, Inc
Center for Watershed Protection	2001	2003	American Whitewater Affiliation, Inc
Dyslexia Tutoring Program	2001	2003	Washington Japanese Language School
Lutheran World Relief	2001	2003	World Relief Corporation of National Association of Evangelicals
Touchstones Discussion Project	2001	2003	Hope Chinese School, Inc
YMCA of Central Maryland	2001	2003	YMCA, Inc
Association of Baltimore Area Grantmakers	2001	2004	Grantmakers for Children, Youth & Families, Inc
Chesapeake Habitat for Humanity	2001	2004	Housing Initiative Partnership, Inc
Community Foundation of the Eastern Shore	2002	2004	National Catholic Community Foundation
Delaplaine Visual Arts Education Center	2002	2004	Rockville Arts Place, Inc
Goodwill Industries of the Chesapeake	2002	2004	Associated Black Charities
Maryland Association of Resources for Families & Youth -MARFY	2002	2004	Child Health Foundation
Maryland Library Association	2002	2004	Allegany County Human Resource Development Commission, Inc
National Kidney Foundation of Maryland	2002	2004	Johns Hopkins University
San Mar Children’s Home	2002	2004	Winter Growth, Inc

APPEDIX B: 990 FORM[18]

Form **990** | Department of the Treasury, Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements.

OMB No. 1545-0047

2004

Open to Public Inspection

A For the 2004 calendar year, or tax year beginning , 2004, and ending , 20

B Check if applicable:
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Final return
- ☐ Amended return
- ☐ Application pending

Please use IRS label or print or type. See Specific Instructions.

C Name of organization

Number and street (or P.O. box if mail is not delivered to street address) | Room/suite

City or town, state or country, and ZIP + 4

D Employer identification number

E Telephone number ( )

F Accounting method: ☐ Cash ☐ Accrual ☐ Other (specify) ▶

● **Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).**

H and I are not applicable to section 527 organizations.

H(a) Is this a group return for affiliates? ☐ Yes ☐ No

H(b) If "Yes," enter number of affiliates ▶

H(c) Are all affiliates included? ☐ Yes ☐ No (If "No," attach a list. See instructions.)

H(d) Is this a separate return filed by an organization covered by a group ruling? ☐ Yes ☐ No

I Group Exemption Number ▶

G Website: ▶

J Organization type (check only one) ▶ ☐ 501(c) ( ) ◀ (insert no.) ☐ 4947(a)(1) or ☐ 527

K Check here ▶ ☐ if the organization's gross receipts are normally not more than $25,000. The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, it should file a return without financial data. Some states require a complete return.

M Check ▶ ☐ if the organization is **not** required to attach Sch. B (Form 990, 990-EZ, or 990-PF).

L Gross receipts: Add lines 6b, 8b, 9b, and 10b to line 12 ▶

Part I **Revenue, Expenses, and Changes in Net Assets or Fund Balances** (See page 18 of the instructions.)

Revenue

1	Contributions, gifts, grants, and similar amounts received:				
a	Direct public support	1a			
b	Indirect public support	1b			
c	Government contributions (grants)	1c			
d	Total (add lines 1a through 1c) (cash $ noncash $)			1d	
2	Program service revenue including government fees and contracts (from Part VII, line 93)			2	
3	Membership dues and assessments			3	
4	Interest on savings and temporary cash investments			4	
5	Dividends and interest from securities			5	
6a	Gross rents	6a			
b	Less: rental expenses	6b			
c	Net rental income or (loss) (subtract line 6b from line 6a)			6c	
7	Other investment income (describe ▶)			7	
		(A) Securities	(B) Other		
8a	Gross amount from sales of assets other than inventory	8a			
b	Less: cost or other basis and sales expenses	8b			
c	Gain or (loss) (attach schedule)	8c			
d	Net gain or (loss) (combine line 8c, columns (A) and (B))			8d	
9	Special events and activities (attach schedule). If any amount is from gaming, check here ▶ ☐				
a	Gross revenue (not including $ of contributions reported on line 1a)	9a			
b	Less: direct expenses other than fundraising expenses	9b			
c	Net income or (loss) from special events (subtract line 9b from line 9a)			9c	
10a	Gross sales of inventory, less returns and allowances	10a			
b	Less: cost of goods sold	10b			
c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)			10c	
11	Other revenue (from Part VII, line 103)			11	
12	Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)			12	

Expenses

13	Program services (from line 44, column (B))	13	
14	Management and general (from line 44, column (C))	14	
15	Fundraising (from line 44, column (D))	15	
16	Payments to affiliates (attach schedule)	16	
17	**Total expenses** (add lines 16 and 44, column (A))	17	

Net Assets

18	Excess or (deficit) for the year (subtract line 17 from line 12)	18	
19	Net assets or fund balances at beginning of year (from line 73, column (A))	19	
20	Other changes in net assets or fund balances (attach explanation)	20	
21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)	21	

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11282Y Form **990** (2004)

[18] www.irs.gov/pub/irs-prior/f**990--2004**.pdf

Part II Statement of Functional Expenses

All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others. (See page 22 of the instructions.)

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I.		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule) (cash $ ______ noncash $ ______)	22				
23 Specific assistance to individuals (attach schedule)	23				
24 Benefits paid to or for members (attach schedule)	24				
25 Compensation of officers, directors, etc.	25				
26 Other salaries and wages	26				
27 Pension plan contributions	27				
28 Other employee benefits	28				
29 Payroll taxes	29				
30 Professional fundraising fees	30				
31 Accounting fees	31				
32 Legal fees	32				
33 Supplies	33				
34 Telephone	34				
35 Postage and shipping	35				
36 Occupancy	36				
37 Equipment rental and maintenance	37				
38 Printing and publications	38				
39 Travel	39				
40 Conferences, conventions, and meetings	40				
41 Interest	41				
42 Depreciation, depletion, etc. (attach schedule)	42				
43 Other expenses not covered above (itemize): a ______	43a				
b ______	43b				
c ______	43c				
d ______	43d				
e ______	43e				
44 **Total functional expenses** (add lines 22 through 43). *Organizations completing columns (B)-(D), carry these totals to lines 13—15*	44				

Joint Costs. Check ▶ ☐ if you are following SOP 98-2.

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? ▶ ☐ Yes ☐ No

If "Yes," enter (i) the aggregate amount of these joint costs $______; (ii) the amount allocated to Program services $______; (iii) the amount allocated to Management and general $ ______; and (iv) the amount allocated to Fundraising $ ______

Part III Statement of Program Service Accomplishments (See page 25 of the instructions.)

What is the organization's primary exempt purpose? ▶ ______ All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)	**Program Service Expenses** (Required for 501(c)(3) and (4) orgs., and 4947(a)(1) trusts; but optional for others.)
a ______ (Grants and allocations $ ______)	
b ______ (Grants and allocations $ ______)	
c ______ (Grants and allocations $ ______)	
d ______ (Grants and allocations $ ______)	
e Other program services (attach schedule) (Grants and allocations $ ______)	
f **Total of Program Service Expenses** (should equal line 44, column (B), Program services) ▶	

Part IV **Balance Sheets** (See page 25 of the instructions.)

Note: *Where required, attached schedules and amounts within the description column should be for end-of-year amounts only.*			(A) Beginning of year		(B) End of year
Assets 45 Cash—non-interest-bearing				45	
46 Savings and temporary cash investments				46	
47a Accounts receivable	47a				
b Less: allowance for doubtful accounts	47b			47c	
48a Pledges receivable	48a				
b Less: allowance for doubtful accounts	48b			48c	
49 Grants receivable				49	
50 Receivables from officers, directors, trustees, and key employees (attach schedule)				50	
51a Other notes and loans receivable (attach schedule)	51a				
b Less: allowance for doubtful accounts	51b			51c	
52 Inventories for sale or use				52	
53 Prepaid expenses and deferred charges				53	
54 Investments—securities (attach schedule) ▶ ☐ Cost ☐ FMV				54	
55a Investments—land, buildings, and equipment: basis	55a				
b Less: accumulated depreciation (attach schedule)	55b			55c	
56 Investments—other (attach schedule)				56	
57a Land, buildings, and equipment: basis	57a				
b Less: accumulated depreciation (attach schedule)	57b			57c	
58 Other assets (describe ▶ ____________)				58	
59 **Total assets** (add lines 45 through 58) (must equal line 74)				59	
Liabilities 60 Accounts payable and accrued expenses				60	
61 Grants payable				61	
62 Deferred revenue				62	
63 Loans from officers, directors, trustees, and key employees (attach schedule)				63	
64a Tax-exempt bond liabilities (attach schedule)				64a	
b Mortgages and other notes payable (attach schedule)				64b	
65 Other liabilities (describe ▶ ____________)				65	
66 **Total liabilities** (add lines 60 through 65)				66	
Net Assets or Fund Balances **Organizations that follow SFAS 117, check here ▶** ☐ and complete lines 67 through 69 and lines 73 and 74.					
67 Unrestricted				67	
68 Temporarily restricted				68	
69 Permanently restricted				69	
Organizations that do not follow SFAS 117, check here ▶ ☐ and complete lines 70 through 74.					
70 Capital stock, trust principal, or current funds				70	
71 Paid-in or capital surplus, or land, building, and equipment fund				71	
72 Retained earnings, endowment, accumulated income, or other funds				72	
73 **Total net assets or fund balances** (add lines 67 through 69 or lines 70 through 72; column (A) must equal line 19; column (B) must equal line 21)				73	
74 **Total liabilities and net assets / fund balances** (add lines 66 and 73)				74	

Form 990 is available for public inspection and, for some people, serves as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes, in Part III, the organization's programs and accomplishments.

Part IV-A **Reconciliation of Revenue per Audited Financial Statements with Revenue per Return** (See page 27 of the instructions.)

a Total revenue, gains, and other support per audited financial statements ▶ **a**

b Amounts included on line a but not on line 12, Form 990:

(1) Net unrealized gains on investments $

(2) Donated services and use of facilities $

(3) Recoveries of prior year grants $

(4) Other (specify): $

Add amounts on lines (1) through (4) ▶ **b**

c Line a minus line b ▶ **c**

d Amounts included on line 12, Form 990 but not on line a:

(1) Investment expenses not included on line 6b, Form 990 $

(2) Other (specify): $

Add amounts on lines (1) and (2) ▶ **d**

e Total revenue per line 12, Form 990 (line c plus line d) ▶ **e**

Part IV-B **Reconciliation of Expenses per Audited Financial Statements with Expenses per Return**

a Total expenses and losses per audited financial statements ▶ **a**

b Amounts included on line a but not on line 17, Form 990:

(1) Donated services and use of facilities $

(2) Prior year adjustments reported on line 20, Form 990 $

(3) Losses reported on line 20, Form 990 $

(4) Other (specify): $

Add amounts on lines (1) through (4) ▶ **b**

c Line a minus line b ▶ **c**

d Amounts included on line 17, Form 990 but not on line a:

(1) Investment expenses not included on line 6b, Form 990 $

(2) Other (specify): $

Add amounts on lines (1) and (2) ▶ **d**

e Total expenses per line 17, Form 990 (line c plus line d) ▶ **e**

Part V **List of Officers, Directors, Trustees, and Key Employees** (List each one even if not compensated; see page 27 of the instructions.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (If not paid, enter -0-.)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances

75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than $100,000 from your organization and all related organizations, of which more than $10,000 was provided by the related organizations? ▶ ☐ Yes ☐ No

If "Yes," attach schedule—see page 28 of the instructions.

Part VI Other Information (See page 28 of the instructions.)

			Yes	No
76	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity.	76		
77	Were any changes made in the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes.	77		
78a	Did the organization have unrelated business gross income of $1,000 or more during the year covered by this return?	78a		
b	If "Yes," has it filed a tax return on Form 990-T for this year?	78b		
79	Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement	79		
80a	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization?	80a		
b	If "Yes," enter the name of the organization ▶ ______ and check whether it is ☐ exempt or ☐ nonexempt.			
81a	Enter direct and indirect political expenditures. See line 81 instructions — 81a			
b	Did the organization file Form 1120-POL for this year?	81b		
82a	Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value?	82a		
b	If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II. (See instructions in Part III.) — 82b			
83a	Did the organization comply with the public inspection requirements for returns and exemption applications?	83a		
b	Did the organization comply with the disclosure requirements relating to quid pro quo contributions?	83b		
84a	Did the organization solicit any contributions or gifts that were not tax deductible?	84a		
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	84b		
85	*501(c)(4), (5), or (6) organizations.* a Were substantially all dues nondeductible by members?	85a		
b	Did the organization make only in-house lobbying expenditures of $2,000 or less? If "Yes" was answered to either 85a or 85b, do not complete 85c through 85h below unless the organization received a waiver for proxy tax owed for the prior year.	85b		
c	Dues, assessments, and similar amounts from members — 85c			
d	Section 162(e) lobbying and political expenditures — 85d			
e	Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices — 85e			
f	Taxable amount of lobbying and political expenditures (line 85d less 85e) — 85f			
g	Does the organization elect to pay the section 6033(e) tax on the amount on line 85f?	85g		
h	If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount on line 85f to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year?	85h		
86	*501(c)(7) orgs.* Enter: a Initiation fees and capital contributions included on line 12 — 86a			
b	Gross receipts, included on line 12, for public use of club facilities — 86b			
87	*501(c)(12) orgs.* Enter: a Gross income from members or shareholders — 87a			
b	Gross income from other sources. (Do not net amounts due or paid to other sources against amounts due or received from them.) — 87b			
88	At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership, or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Part IX	88		
89a	*501(c)(3) organizations.* Enter: Amount of tax imposed on the organization during the year under: section 4911 ▶ ______ ; section 4912 ▶ ______ ; section 4955 ▶ ______			
b	*501(c)(3) and 501(c)(4) orgs.* Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction	89b		

c Enter: Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955, and 4958 ▶ ______

d Enter: Amount of tax on line 89c, above, reimbursed by the organization ▶ ______

90a List the states with which a copy of this return is filed ▶ ______

b Number of employees employed in the pay period that includes March 12, 2004 (See instructions.) 90b ______

91 The books are in care of ▶ ______ Telephone no. ▶ ( ) ______

Located at ▶ ______ ZIP + 4 ▶ ______

92 *Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of Form 1041*—Check here ▶ ☐ and enter the amount of tax-exempt interest received or accrued during the tax year ▶ 92

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Part VII Analysis of Income-Producing Activities (See page 33 of the instructions.)

Note: *Enter gross amounts unless otherwise indicated.*	Unrelated business income		Excluded by section 512, 513, or 514		(E) Related or exempt function income
	(A) Business code	(B) Amount	(C) Exclusion code	(D) Amount	
93 Program service revenue:					
a					
b					
c					
d					
e					
f Medicare/Medicaid payments					
g Fees and contracts from government agencies					
94 Membership dues and assessments					
95 Interest on savings and temporary cash investments					
96 Dividends and interest from securities					
97 Net rental income or (loss) from real estate:					
a debt-financed property					
b not debt-financed property					
98 Net rental income or (loss) from personal property					
99 Other investment income					
100 Gain or (loss) from sales of assets other than inventory					
101 Net income or (loss) from special events					
102 Gross profit or (loss) from sales of inventory					
103 Other revenue: a					
b					
c					
d					
e					
104 Subtotal (add columns (B), (D), and (E))					

105 Total (add line 104, columns (B), (D), and (E)) . . . . . ▶

Note: *Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I.*

Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes (See page 34 of the instructions.)

Line No. ▼	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes).

Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities (See page 34 of the instructions.)

(A) Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets
	%			
	%			
	%			
	%			

Part X Information Regarding Transfers Associated with Personal Benefit Contracts (See page 34 of the instructions.)

(a) Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? ☐ Yes ☐ No

(b) Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? ☐ Yes ☐ No

Note: *If "Yes" to (b), file Form 8870 and Form 4720 (see instructions).*

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

▶ Signature of officer | Date

▶ Type or print name and title.

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's SSN or PTIN (See Gen. Inst. W)
Firm's name (or yours if self-employed), address, and ZIP + 4 ▶		EIN ▶	
		Phone no. ▶ ( )	

Form 990 (2004)