

MERRILL LYNCH

NONPROFIT NEWS

EXCLUSIVELY FOR LEADERS OF NONPROFIT ORGANIZATIONS AND FAMILY FOUNDATIONS



Vol. 4, Number 1

In the
NEWS

Phasing In the New Form 990

To allow nonprofit organizations time to become familiar with the newly redesigned Form 990 (Return of Organization Exempt from Income Tax), the IRS is phasing in the form and new filing requirements for smaller organizations over the next few years.

The phase-in will be accomplished by increasing filing thresholds for Form 990-EZ, which is filed by many smaller organizations, and giving these organizations a choice between filing the new Form 990 or the EZ version for the 2008 and 2009 tax years.

(continued on page 3)

TEAMING UP FOR RESULTS

By nature, nonprofit philanthropy is a group effort. Typically, several people join together to form a nonprofit organization to support a cause they all believe in, and numerous donors contribute to further that cause. However, the donor-organization partnership isn't the only alliance that can advance a nonprofit's work. To help you explore the many advantages different alliances can offer, this issue of *Nonprofit News* considers the various ways nonprofits can collaborate to make a difference.

- Many high-net-worth individuals ask their advisors to help coordinate the establishment of charitable giving vehicles. So, it's not surprising that more and more nonprofit organizations are seeking alliances with these professionals. See how including advisors (attorneys, accountants and financial advisors) in the gift-planning process can benefit everyone involved.
- Donor-advised funds are one of the fastest — if not the fastest — growing planned giving vehicles. For many nonprofit organizations, the Merrill Lynch Community Charitable Fund® program is an attractive alternative to suggest to donors who are considering a donor-advised fund strategy.
- Section 501(c)(3) organizations are prohibited from directly or indirectly participating or intervening in any political campaign on behalf of — or in opposition to — a candidate for public office. However, not all election-related activities are prohibited. To help in this election year, we offer some “dos” and “don'ts” of political alliances.
- Our “Making a Difference” feature looks at how a small group of people with a lot of determination made their vision of a permanent West Coast symbol representing the American ideals of strength of character, freedom and peace a reality with the opening of the USS Midway Museum.
- Foundation Focus reports on the partnership of The Merrill Lynch Center for Philanthropy & Nonprofit Management and Benevon, exploring a way foundations and other nonprofit organizations can secure help creating sustainable funding.
- We also alert organizations to changes in the Form 990 filing requirements for smaller organizations. Please see the sidebar on left. ■

David Ratcliffe, Director,
The Merrill Lynch Center for Philanthropy & Nonprofit Management

POLITICAL ALLIANCES: UNDERSTANDING THE RULES

Under the tax law, 501(c)(3) organizations are prohibited from participating, directly or indirectly, or intervening in any political campaign on behalf of — or in opposition to — a candidate for federal, state or local public office. An organization that violates this rule can lose its exempt status.

However, not all election-related activities are prohibited. To help in this election year, the IRS has issued a ruling¹ to provide 501(c)(3) nonprofit organizations and their leaders with guidance. The ruling looks at 21 situations and offers guidance on which political activities are prohibited and which are not, to help clarify the issues. Here are some highlights.

VOTER EDUCATION

According to the ruling, organizing voter education and registration programs is a permissible activity. Organizations may hold public forums, publish voter election guides and organize voter registration and get-out-the-vote drives — as long as all activities are conducted in an unbiased manner.

ENDORSEMENTS

Endorsing candidates is a bit more complicated. The ruling makes it clear that an organization may not endorse a candidate for office or issue public statements — either verbal or written — in favor of or in opposition to a candidate.

Personal endorsements and/or public policy statements made by board members and other organization leaders, however, may or may not be considered improper political participation by the organization. It is very easy to overstep the line as this example (adapted from the IRS ruling) shows:

Brent is the president of a university. He writes a monthly column for the university's alumni magazine titled, "My Views." The month before an election, Brent states in his column, "It is my personal opinion that the candidate should be reelected." For that one issue, Brent pays an amount from his personal funds that covers the portion of the cost of the newsletter attributable to his "My Views" column. Because the endorsement appeared in an official publication of the university, despite Brent's payment, the endorsement constitutes campaign intervention by the university.

CANDIDATE APPEARANCES

Political figures often address nonprofit groups. The IRS outlines some important precautions in the ruling for situations in which an organization invites a person to speak as a political candidate. The organization should make sure it:

- Gives opposing candidates an equal opportunity to speak. Inviting one candidate to speak at a well-attended annual banquet and another at a sparsely attended general meeting will likely violate the political campaign prohibition, even if everything else is neutral.
- Does not indicate support for or opposition to any candidate.

ISSUE ADVOCACY VERSUS POLITICAL CAMPAIGN INTERVENTION

Nonprofit organizations can take positions on public policy issues, including issues that divide candidates in an election. When making statements about such issues, organizations must take care to not include any message that appears to favor or oppose a candidate. When determining if a communication results in political campaign intervention, the IRS looks at whether the communication:

- Identifies one or more candidates for a given public office.
- Expresses approval or disapproval for one or more candidates' positions and/or actions.
- Is delivered close in time to the election.
- Refers to voting or an election.
- Addresses an issue that distinguishes the candidates for a given office.
- Is part of an ongoing series of communications by the organization on the same issue independent of the timing of any election.
- Is related to a non-electoral event, such as a scheduled vote on specific legislation by an officeholder who also happens to be a candidate for public office.

- Does not allow any political fundraising to take place at the event.

If several candidates are invited to an event and one declines, the event may be held with the other candidates and a note that the missing candidate declined to participate. When holding public forums with several candidates:

- Questions should be prepared and presented by an independent nonpartisan panel.
- The topics should cover a broad range of issues that are of interest to the general public and that the candidates, if elected, would have to address.
- Each candidate should be given an equal opportunity to present his or her views on each of the issues discussed.

The ruling makes it clear that an organization should never ask candidates to give their opinions on the organization's positions, agendas or platforms.

BUSINESS ACTIVITIES

There are certain business activities involving nonprofit organizations that could be construed as supporting a candidate’s campaign. The ruling mentions several, including leasing office space to a candidate and allowing a candidate to rent or buy the organization’s mailing list. Before undertaking an activity, consider whether:

- The goods, services or facility are available to candidates in the same election on an equal basis.
- The goods, services or facility are available only to candidates and not to the general public.
- The fees charged to candidates are at the organization’s customary and usual rates.
- The activity is an ongoing activity of your organization and is not being conducted only for a particular candidate.

Allowing candidates to simply use an organization’s facilities can pose problems. If such use is allowed, the ruling stipulates that it may not be selective.

WEB SITES

Recognizing the growing importance of Internet-based communication, the ruling directly addresses several issues regarding nonprofit Web sites. One important clarification is that posting material on an organization’s Web site is the same as distributing that material in print or making a public statement. Links to candidate-related sites also can be problematic. While such links do not, by themselves, necessarily constitute political campaign intervention, after examining all the facts and circumstances, the IRS may determine that a link produces that result. Some considerations:

- Why is the link included?
- Are all candidates represented?
- What exempt purpose does the link serve, if any?
- How direct is the link between an organization’s Web site and a Web page containing material favoring or opposing a candidate for public office?

¹ Rev. Rul. 2007-41, 1RB2007-25 (June 18, 2007)

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In The News (continued from page 1)

HERE ARE THE GROSS RECEIPTS AND ASSETS TESTS FOR THE PHASE-IN YEARS.

Can File 990-EZ or Current 990 for:	If gross receipts are:	And assets are:
2007 tax year (filed in 2008)	> \$25,000 and < \$100,000	< \$250,000
Can File 990-EZ or New 990 for:		
2008 tax year (filed in 2009)	> \$25,000 and < \$1 million	< \$2.5 million
2009 tax year (filed in 2010)	> \$25,000 and < \$500,000	< \$1.25 million
2010 and later tax years	> \$50,000 and < \$200,000	< \$500,000

For the smallest nonprofits, beginning with the 2007 tax year, organizations with gross receipts of \$25,000 or less are required to file a new electronic return, the e-postcard. This threshold will increase to \$50,000 for the 2010 tax year.

CONNECTING WITH PROFESSIONAL ADVISORS

Three quarters of high-net-worth individuals set up charitable giving vehicles through their financial advisors.* So, it's not surprising that more and more nonprofit organizations are seeking alliances with these professionals.

EVERYONE BENEFITS

Including advisors (attorneys, accountants and financial advisors) in the gift-planning process benefits everyone involved. Nonprofits gain access to additional expertise and an increased potential to expand their donor bases through referrals from the professional advisors. Donors are better served through a planned giving program that's coordinated with their overall financial plan. Advisors have the opportunity to expand services and address the core values of their client base.

As Charles Bernard Maclean, PhD, Committed Listener, PhilanthropyNow, summed it up, "At their best, professional advisors, nonprofits and client/donors are dance partners... each with somewhat different dance cards; rhythms and moves...all committed to community give-back. The client/donor takes the lead...it's their dance floor."

But how does an organization make a connection with professional advisors? Here are some ideas to consider.

EXISTING DONORS

The simplest way to make contact is through existing donors. Increasingly, donors are seeking the help of financial advisors in their planned giving programs. Encouraging major donors to ask their advisors to sit in at meetings with them and your organization's planned giving officers can give you ready-made relationships with local advisors.

NETWORKING

Having your planned giving officers or board members attend meetings or seminars sponsored by local financial planning associations can help them make contacts in the financial planning community. Your organization might also consider signing on as a sponsor for an association event, such as a continuing education workshop, which may give you speaker time at the event. Or an officer or board member might want to volunteer to present a program on some aspect of planned giving and your organization.

ORGANIZATION EVENTS

Similarly, your organization can organize its own seminars on nonprofit and giving topics that are relevant to professional advisors. To get the ball rolling, you may want to consider focusing on very basic topics such as how and why advisors should talk to their clients about giving or charitable giving techniques that could be useful in solving tax or planning problems.

Keep your organization's name in front of advisors when the event is over by following up with a thank you note to

attendees and/or by making phone calls to advisors you may not have been able to speak with as long as you would have liked and those who seemed interested in your organization and — learning more about gift planning.

Also, don't overlook opportunities to invite professional advisors to general events your organization may sponsor, such as open houses and campaign drive kickoffs.

NEWSLETTERS

If your organization has the resources, consider creating a newsletter for professional advisors. It could be quarterly or semiannual in print or electronic form. Alternatively, you could add the advisors you work with and those you'd like to work with to your organization's existing newsletter mailing list and make a point to include an article about planned giving in each issue. Your organization's fundraising results, endowment performance, amounts received from planned giving and similar information would also be of interest to professional advisors.

SUCCESSFUL ALLIANCES

Nonprofits should take care when forming alliances with professional advisors. It is important for your organization to maintain a reputation for sound business practices and financial acumen. Consequently, you should seek to build relationships with community and industry leaders who are well-known, respected and trusted in the community.

Before establishing any kind of ongoing relationship, make sure your organization and the advisor are compatible and that the advisor can relate well to your development staff. While advisors and development officers share some common goals, there are subtle differences in what each wants to accomplish.

The development officer wants to ensure that the gift is made in a way that meets the needs of the organization and the donor; however, the officer may not have sufficient information or expertise to assess the donor's financial planning needs. The professional advisor strives to be an objective counselor to the client-donor by structuring the gift in a way that meets the donor's financial objectives but may not be able to effectively communicate how those needs impact the organization's mission goals and objectives.

In successful relationships, the advisor and planned-giving officer put aside differences and work collaboratively in the best interests of the donor-client. Result: Significant benefits to all. ■

* *Donor Advised Fund Market*, An analysis of the overall market and trends, November 2007.

FOUNDATION

FOCUS

BENEVON

HELPING NONPROFITS CREATE SUSTAINABLE FUNDING

Terry Axelrod, founder of consulting firm Benevon, had an epiphany of sorts after spending two and a half years raising funds for an inner city, low-income private school in Seattle. She realized that the strategies and principles she had used to help the school raise \$7.3 million could be systematized and applied to other nonprofits in need of financial support.

After all, when she had first started to help the school, it had an endowment of exactly zero and no fundraising worth speaking of. Through trial and error, she developed a multi-pronged approach that allowed the school to take its financial future into its own hands.

Initially, this approach meant that Axelrod reached into the community and invited people to see the work of her school. Over time, she built up a network of supporters who matched her enthusiasm for the school's mission and who were willing to make a long-term financial commitment to supporting the school. By the time Axelrod left, the school had sustainable funding from numerous individual donors and was well on its way to a significant endowment.

Axelrod then went to work refining her strategies until she was satisfied that she had developed a workable and easy-to-learn system that could be applied across the board by nonprofits of every size in every corner of the country. Twelve years and 3,000 nonprofit clients later, Benevon, the company Axelrod founded, continues to help nonprofits build an expanding pool of passionate and committed lifelong donors.

A QUESTION OF SURVIVAL

Terry Axelrod believes that too many nonprofit organizations spend so much of their time struggling to stay afloat that they are unable to focus on their mission. When the gap between operating costs and revenues becomes significant, staying alive and functioning effectively become a tremendous challenge. The answer for struggling nonprofits, says Axelrod, must come from the cultivation of individual donors. She points out that, according to Giving USA, the contributions that individual donors make to nonprofits accounted for nearly 85% of all giving (or \$295 billion) in 2007. Teaching nonprofit organizations how to tap into their community's wealth is one of Benevon's primary goals.

"This approach is a science, not an art form. Through workshops, we help nonprofits create better infrastructure, show them best practices and help them to speak powerfully and tell their stories to the community. Telling their stories helps attract people who share their goals and helps turn many of them into multi-year donors," she says.

Benevon shows nonprofits how to systematically reach out to major donors by helping them design cultivation and asking strategies. According to Axelrod, the ultimate goal of Benevon's workshops and strategies is to help nonprofits reach the point where they have built up an endowment that is large enough to sustain their mission over the long term.

WORKING WITH FOUNDATIONS

Benevon's strategies can be particularly useful to foundations that are looking for ways to leverage the impact of their grants. By giving money to charities so that they can send staff members to Benevon's workshops, foundations can maximize their impact on chosen grant recipients. By helping grant recipients learn the methods and techniques taught by Benevon, foundations are essentially empowering the grantees to take the first steps towards raising sustainable funding from individuals in their communities. Foundations can see in a relatively short period the impact that their grants have had on the organizations that receive them.

A NEW RELATIONSHIP

The Merrill Lynch Center for Philanthropy & Nonprofit Management officially began to partner with Benevon to better serve the needs of its clients in the nonprofit world. "One of the most effective leveraging techniques that private foundations can employ is to enhance their grantees' development infrastructure," notes Elliot Berger, Director, Foundations and Strategic Philanthropy. "Since foundation grants represent about 12% of donations to charities, we encourage clients to maximize outcomes, beyond the purpose power of their grants, by enabling their favorite nonprofits to become more effective in communicating their value and more strategic in their fundraising. CPNM is so impressed with Benevon's sustainability model and successes that we are educating our clients about their capabilities," he added. ■

MAKING A DIFFERENCE

USS MIDWAY MUSEUM

Envision a permanent symbol on the West Coast that represents the American strength of character, freedom and peace — like the Statute of Liberty in New York Harbor. That’s exactly what a small group of dedicated people did in 1992. Twelve years later, their vision became a reality when the USS Midway Museum opened its decks to its first visitors in June 2004. By the end of 2007, the Midway had welcomed more than three million visitors.

“Midway has embarked on its final mission to become a museum, education center, visitor destination and national icon on the West Coast,” said President and CEO Mac McLaughlin. “Thousands of San Diegans are working hard to convert that vision into reality, as we already are the most-visited floating ship museum in the country.”

Merrill Lynch has been involved with the Midway Museum project from the start, with Financial Advisor Patricia Reno as one of the founders.

“Like so many others, the potential of the USS Midway Museum to play a vital role in educating future generations of Americans from the start was evident,” said Reno. “When our children’s future is at stake, I can’t think of a more noble cause for involvement.”

LIVE THE ADVENTURE, HONOR THE LEGEND

Housed in the famous aircraft carrier, the USS Midway Museum offers a unique opportunity to walk in the footsteps of the more than 225,000 men who served aboard the ship over its nearly five decades of service — the longest-serving carrier in the 20th century. Visitors can experience what it was like to cook 13,000 meals a day or, through one of the flight simulators, the exhilaration felt by the thousands of aviators who flew off Midway’s decks.

“The Midway offers a fabulous entertainment and learning venue,” Ari Petersen, Vice President for Development, said. “Our success is made possible by an incredible volunteer corps, many of whom are veterans and even former Midway sailors and aviators.”

As part of its mission to educate the public about the history of the U.S. Navy and what that history means to America, the USS Midway Museum features 60 exhibits and restored aircraft. An self-guided audio tour, narrated for the most part by former Midway sailors and aviators, is especially popular.

TYING THE PAST TO THE PRESENT

The museum has an extensive educational program specifically designed for schools and youth groups. It features science, math and social studies labs for children grades

two through eight, high school vocational programs, and a popular sleepover program. More than 30,000 children a year attend these programs.

To make its programs available to more students, the museum has a school scholarship program, the goal of which is to make it possible for every school in San Diego County to be able to afford to bring students to Midway. Another scholarship program, the Bravo Zulu Scholarship, offers higher education opportunities to high school graduates in areas from masonry to marketing and from equipment operation to education.

For those who served on the USS Midway, the museum is seeking stories of service for its oral history project. The organization’s Web site also has crew message boards broken down by decades from the 1940s to the 1990s.

ON BOARD WITH MERRILL LYNCH

In addition to Pat Reno’s involvement in getting the project afloat, Merrill Lynch has helped the organization as an early “Plank” donor and with securing the financial resources needed to get the USS Midway moved to San Diego Harbor. Vice President and Senior Philanthropic Consultant Michael Wagschal along with Karin Longhurst, First Vice President, Senior Trust and Estate Specialist, are currently working with Midway to build its endowment fund.

“Our relationship with Merrill Lynch is a great opportunity for us,” Petersen said. “We want to make sure we have the right partners — and Merrill Lynch is our choice to help us build our planned giving program.” The museum has recently hired James Eckel, CFP®, a Merrill Lynch alumnus from the 1980’s, as their Director of Planned Giving.

Wagschal added, “We see this kind of success story all too infrequently. Sometimes we’re approached by charities with plans beyond their founders’ reach. That wasn’t the case with the USS Midway. Its founders had a big vision, but they also had the planning abilities needed and were willing to work hard for the backing they needed. I’m pleased that Merrill Lynch was part of that backing and will be continuing to work with the museum toward its continued success.” ■

DONOR-ADVISED FUNDS: STILL GOING STRONG

Over the past few years, donor-advised funds have been one of the fastest — if not *the* fastest — growing charitable giving vehicles. From 2005 to 2006 alone, the assets of the nation's largest donor-advised funds increased more than 21% from \$15.9 billion to \$19.2 billion.¹

THE ATTRACTION FOR DONORS

With a donor-advised fund, the donor recommends how he or she would like the fund's assets to be used or distributed. Donors can also outline the results they would like to see from their generosity. Naming adult children or grandchildren as joint and successor fund advisors continues the donor's philanthropic wishes and can help instill a sense of philanthropy in future generations.

For many people, this is a very attractive philanthropic option. In addition to making a tax-deductible gift, donor advised funds allow a donor to enhance their donations by:

- Making an ongoing difference in their own communities
- Making recommendations as how they want their contributions used
- Maximizing the benefit to their communities through professional investment management of their funds
- Leaving a legacy

A donor-advised fund is affordable for many people and is also easier to implement than other gift strategies, such as a private foundation. Donor-advised funds can typically be created with modest contributions of \$25,000 or less.

THE BENEFITS TO THE COMMUNITY

Many people like to see their charitable contributions at work right in their own communities and may be generous when they know their money is staying "at home."

Donor-advised funds can be used to support and address a wide variety of causes, including:

- Literacy
- The environment
- Hunger
- Housing
- The arts
- Medical care
- Programs to help troubled teens
- Education including teaching aids
- Sports programs for children
- And more

The benefits to communities are limited only by the vision and generosity of fund donors. However, for those donors

who wish to expand their philanthropic reach, grants from donor advised funds are not limited to specific geographic locations and can address a wide range of organizations and mission coverage.

PARTNERS IN PHILANTHROPY

How can your organization benefit from the popularity of donor-advised funds? Obviously, through fund grants. But also consider the benefits of positioning your organization as a resource for information, knowledge and assistance for donors interested in creating donor-advised funds. This resource can open the door to future direct gifts to your organization through charitable trusts or other planned giving strategies in addition to establishing your organization as a grant recipient.

Creating and managing donor-advised funds can be a big undertaking. Merrill Lynch can simplify and add value to the process by partnering with you and donors interested in giving through donor-advised funds. For many nonprofit organizations, the Merrill Lynch Community Charitable Fund® program is an attractive alternative to sponsoring their own donor-advised funds.

This innovative philanthropic service allows individuals to create donor-advised funds with the guidance of a Merrill Lynch Financial Advisor. The donor creates the fund at one of a network of community foundations across the United States, and can recommend your organization as a recipient of distributions from the fund. This five-year-old program has more than \$200 million in assets, up from just under \$92 million in 2005.

Assisting donors with using and understanding a donor-advised fund program lets you offer the benefits of your philanthropic knowledge and advice — combined with the charitable planning, financial and investment expertise of Merrill Lynch Financial Advisors — to donors you might not otherwise attract.

¹ *The Chronicle of Philanthropy* annual survey of donor-advised funds, 2003 and 2006.



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Code 367812PM-0508