What the Open 990-PF Means to Your Foundation

This compendium captures the wisdom shared from the many authors who contributed to our Open 990-PF blog series between 2016-2021. This Transparency Talk series, presented in partnership with the Conrad N. Hilton Foundation, examines the importance of the 990-PF, the informational tax form that foundations must annually file.

Explore this series to learn about the implications of the new, open 990-PF; how this tax document is used to shape understanding of philanthropy; and its role, limitations, and potential as a communications tool.

Foundation Transparency: Game Over?

May 23, 2016

Brad Smith is president of Foundation Center.

The tranquil world of America's foundations is about to be shaken, but if you read the Center for Effective Philanthropy's (CEP) new study — *Sharing What Matters, Foundation Transparency* — you would never know it.

Don't get me wrong. That study, like everything CEP produces, is carefully researched, insightful and thoroughly professional. But it misses the single biggest change in foundation transparency in decades: the imminent release by the Internal Revenue Service of foundation 990-PF (and 990) tax returns as machine-readable open data.

Clara Miller, President of the Heron Foundation, writes eloquently in her manifesto, *Building a Foundation for the 21St Century*: "...the private foundation model was designed to be protective and separate, much like a terrarium."

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Terrariums, of course, are highly "curated" environments over which their creators have complete control. The CEP study, proves that point, to the extent that much of the study consists of interviews with foundation leaders and reviews of their websites as if transparency were a kind of optional endeavor in which foundations may choose to participate, if at all, and to what degree.

To be fair, CEP also interviewed the grantees of various foundations (sometimes referred to as "partners"), which helps convey the reality that foundations have stakeholders beyond their four walls. However, the terrarium metaphor is about to become far more relevant as the release of 990 tax returns as open data will literally make it possible for anyone to look right through those glass walls to the curated foundation world within.

What *Is* Open Data?

It is safe to say that most foundation leaders and a fair majority of their staff do not understand what open data really is. Open data is free, yes, but more importantly it is digital and *machine-readable*. This means it can be consumed in enormous volumes at lightning speed, directly by computers.

"The release of 990 tax returns as open data will literally make it possible for anyone to look right through those glass walls to the curated foundation world within."

Once consumed, open data can be tagged, sorted, indexed and searched using statistical methods to make obvious comparisons while discovering previously undetected correlations. Anyone with a computer, some coding skills and a hard drive or cloud storage can access open data. In today's world, a lot of people meet those requirements, and they are free to do whatever they please with your information once it is, as open data enthusiasts like to say, "in the wild."

Today, much government data is completely open. Go to data.gov or its equivalent in many countries around the world and see for yourself.

The theory behind open data, increasingly born out in practice, is that making information available leads to significant innovation for the public good while the demand for and use of such data also improves its accuracy and quality over time. And some open data is just fun: one of my personal favorites is the White House visitors list!

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What is the Internal Revenue Service Releasing?

Thanks to the Aspen Institute's leadership of a joint effort - funded by foundations and including Foundation Center, GuideStar, the National Center for Charitable Statistics, the Johns Hopkins Center for Civil Society Studies, and others - the IRS has started to make some 1,000,000 Form 990s and 40,000 Form 990PF available as machine-readable open data.

Previously, all Form 990s had been released as image (TIFF) files, essentially a picture, making it both time-consuming and expensive to extract useful data from them. Credit where credit is due; a kick in the butt in the form of a lawsuit from open data crusader Carl Malamud helped speed the process along.

The current test phase includes only those tax returns that were digitally filed by nonprofits and community foundations (990s) and private foundations (990PFs). Over time, the IRS will phase in a mandatory digital filing requirement for all Form 990s, and the intent is to release them *all* as open data. In other words, that which is born digital will be opened up to the public in digital form. Because of variations in the 990 forms, getting the information from them into a database will still require some technical expertise, but will be far more feasible and faster than ever before.

"Over time, the IRS will phase in a mandatory digital filing requirement for all Form 990s, and the intent is to release them all as open data."

The Good

The work of organizations like Foundation Center— who have built expensive infrastructure in order to turn years of 990 tax returns into information that can be used by nonprofits looking for funding, researchers trying to understand the role of foundations and foundations, themselves, seeking to benchmark themselves against peers—will be transformed.

Work will shift away from the mechanics of capturing and processing the data to higher level analysis and visualization to stimulate the generation and sharing of new insights and knowledge. This will fuel greater collaboration between peer organizations, innovation, the merging of previous disparate bodies of data, better philanthropy, and a stronger social sector.

The (Potentially) Bad

The world of foundations and nonprofits is highly segmented, idiosyncratic and difficult to understand and interpret. GuideStar and Foundation Center know this.

But many of the new entrants who are attracted by the advent of open 990 data will not. They will most likely come in two forms: start-ups claiming their new tools will revolutionize the business of giving, and established, private sector companies, seeking new market opportunities. Neither of these is intrinsically bad and could lead to some degree of positive disruption and true innovation.

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The negative potential could be two-fold. Funders will inevitably be intrigued by the start-ups, their genius and their newness and divert funding towards them. Foundations are free to take risks and that is one of their virtues. But while needs grow, funding for the data and information infrastructure of philanthropy is limited, technology literacy among foundations relatively low, and many of these start-ups will prove to be shooting stars (anybody remember Jumo?).

"Once the 990 data is 'in the wild,' conclusions may be drawn that foundations find uncomfortable if not unfair."

The second category of new entrants is far more complex and will come in the form of for-profit data analytics companies. Some of these have business models and immensely sophisticated black box technologies that rely heavily on government contracts for defense and national security. They will be lured by the promise of lucrative contracts from big foundations and mega-nonprofits and the opportunity to demonstrate social responsibility by doing good in the world.

But these for-profit analytics companies will quickly discover that there is only one Gates Foundation among the 87,000 private foundations and only a handful of richly-resourced nonprofits among the 1.3 million on the IRS registers. And those who choose to contract the services of "Big Analytics" will need to consider the potential reputational consequences of aligning their "brands" with the companies behind them.

Sound defensive? Not at all: Foundation Center welcomes the competition, has been building for it since 2010, and knows the challenge can only make us and the social sector better.

The Ugly

Once the 990 data is "in the wild," it is possible if not probable, conclusions will be drawn that foundations find uncomfortable if not unfair. Those who are new to the field and relatively uninformed (or uninterested) in its complexity, may make claims about executive compensation based on comparisons of foundations of wildly disparate size and scope.

The same could be done with overhead rates, payout, or any other figure or calculation that can be made based on information found in the 990-PF. Some foundations already chafe when responsible sector advocates like the National Committee for Responsive Philanthropy (NCRP) use Foundation Center data to rank foundations according to their Criteria for Philanthropy at Its Best. Imagine claims coming over the transom from individuals and organizations whose core values do not include a belief in the practice of philanthropy and a normative vision for how it could be better.

"Another potential consequence lies at the intersection of the open 990 data and the growth of impact investing."

Another potential consequence lies at the intersection of the open 990 data and the growth of impact investing. This was the spirit in which Clara Miller introduced her terrarium analogy to highlight what she sees as the artificial disconnect between the controlled, strategic, and curated world constructed by the grants side of foundations and the sometimes contradictory forces at work in the larger economy in which their assets are invested.

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Foundations like Heron are striving to put 100% of their assets toward mission, while others like Rockefeller Brothers Fund are divesting their investment portfolios from fossil fuels and re-investing those assets in ways that further the goals of their climate change grantmaking, rather than exacerbate the problem.

A recent (and as of yet unpublished) Foundation Center survey found that 60% of foundations were not engaged in impact investing and had no plans to do so. That is their choice, but open 990 data may well put them in a position of having to publicly explain it.

For example, using Foundation Center databases, I searched across several hundred thousand foundation 990-PF tax returns and found 37 foundations that held Corrections Corporation of America stock in their investment portfolios. These foundations may well believe, as the majority of foundations insist, that the purpose of the investment arm of the foundation is to generate the highest sustainable return possible in order to fund the mission through grants. But if a foundation holding that stock is striving to work on juvenile justice or improve the lives of black men and boys, an investigative reporter or activist might well ask why they are investing in a corporation that runs private, for-profit prisons

It's 10:00pm, Do You Know Where Your 990 Is?

With the game over for foundation transparency, the big takeaway is to *know your 990-PF* (or 990 for community foundations). Suddenly, it will be transformed from a bureaucratic compliance document into one of your foundation's key communications vehicles.

> ***"Regardless of how each of us may feel about the greater transparency required of foundations, it is increasingly inevitable."***

Right about now, you may be thinking: "What about the website re-design we spent all that money on, with our new logo, carefully crafted initiative names, and compelling photos??" It's still important, and you can follow the lead of those foundations guided by the online transparency criteria found on Foundation Center's *Glasspockets* website.

But for the sector as a whole, while fewer than 10% of all foundations have websites, they *all* file 990 tax returns. As the IRS open data release unfolds and mandatory digital filing kicks in, the 990-PF will become one of the primary sources of information by which your individual foundation will be known *and compared* to others.

I recently asked a group of foundation CEOs whether they ever had an in-depth discussion about their 990-PFs among their board members and was met with blank stares. In a world of digital transparency, this will have to change. As 990s become a data source and communications vehicle, the information on them will need to be clear, accurate and above all, a faithful representation of how each individual foundation makes use of the precious tax exemption it has been granted to serve the public good.

A few simple tips for starters:

- Take advantage of Section 15 (block 2) to talk about your priorities, grant process, limitations, and restrictions.

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- In Section 15 (block 3) write the correct, legal name for each grantee organization and add its EIN or BRIDGE ID
- In the same section, write clear and compelling descriptions for the purpose of each grant (more than you might think, people look at foundations by what they fund).
- Make sure all numbers on the form add up correctly (you'd be surprised!).

Regardless of how each of us may feel about the greater transparency required of foundations, it is increasingly inevitable. Philanthropy is essential to American society and a positive source for good in a challenging world.

As the terrarium walls insulating individual foundations fall, we will surely face a few moments of anxiety and discomfort. But greater transparency, fueled by open IRS data, can only make us more conscientious stewards of our resources, more effective decision-makers, and better collaborators on our way to achieving greater and greater impact in the world.

Game over? It's just beginning!

— Brad Smith

What the Open 990-PF Means to Your Foundation

Warren Buffett Has Some Excellent Advice for Foundations That They Probably Won't Take

March 16, 2017

Marc Gunther writes about nonprofits, foundations, business and sustainability. He also writes for NonprofitChronicles.com. This post also appears in Nonprofit Chronicles.

With a collective $800 billion in assets under management, America's big foundations spend vast sums of money to buy investment advice. They're getting little, if anything, of value in return.

Their own investment offices, and the Wall Street banks, hedge funds, private equity firms and consultants they hire, when taken together, **deliver investment returns that lag behind market indexes**, all evidence indicates.

These foundations would do better to call an 800 number at Vanguard or Schwab and buy a diversified set of low-cost index funds.

So, at least, argues Warren Buffett, one of the great investors of our time. In his latest letter to investors in Berkshire Hathaway, Buffett writes:

When trillions of dollars are managed by Wall Streeters charging high fees, it will usually be the managers who reap outsized profits, not the clients. Both large and small investors should stick with low-cost index funds.

The limited data available about foundation endowments bears him out.

It's not possible to prove that Buffett's advice would enable foundations to improve their returns–and thus have more money to devote to their grant-making. **Most foundations don't disclose the financial performance of their endowments**.

Of the 10 largest grant-making foundations in the US, only two — the MacArthur Foundation and the W.K. Kellogg Foundation — publish investment returns on their websites. MacArthur's disclosure is exemplary. (So is its performance, perhaps not coincidentally.) I emailed all ten and got nowhere with the rest.

The best evidence about how foundations are managing their endowments comes from an annual study published by the Council on Foundations and Commonfund, a nonprofit asset management fund that serves foundations, colleges and nonprofits. Their most recent survey, which covers the 10-year period from 2006 through 2015, found that returns averaged **5.5 percent** per year for 130 private foundations and **5.2 percent** per year for 98 community foundations.

Further insight can be gleaned from Cambridge Associates, an investment firm whose clients include foundations, universities and wealthy families. Cambridge tracked the performance of 445 of its endowment and foundation clients and found they generated average annualized returns of **4.97 percent** for the 10-year period ending June 30, 2016. (These returns should not be considered Cambridge's performance track record, a spokesman told me.)

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"High pay for money managers does not necessarily translate into superior returns for foundations."

By contrast, Vanguard's model portfolio for institutional investors, a mix of passively invested index funds, with 70 percent invested in stocks and the rest in fixed income securities, delivered **5.81 percent** over the 10-year-period through 2015, and **6.1 percent** for the 10-year period ending on June 30, 2016, according to Chris Philips, head of institutional advisory services at Vanguard. (All figures for investment returns are net of fees, meaning fees are taken into account.)

That may appear to be a small edge for Vanguard. **But when institutions are investing hundreds of millions, or billions of dollars, small gains compounded over time add up to big money.** Money, again, that could be better spent on programs.

Actually, it's worse, because the figures reported by the Council on Foundations and CommonFund do not include the salaries that foundations pay to their in-house investment offices. The chief investment officers are often the highest-paid executives at foundations, and their deputies do well, too.

Why, then, do foundations continue to pay high salaries and high fees in the pursuit of market-beating returns, when so many fail?

They should know better. It's no secret that passive approaches to investing outperform most active money managers, once fees and trading costs are taking into account. In 2005, Buffett wrote that "active investment management by professionals – in aggregate – would over a period of years underperform the returns achieved by rank amateurs who simply sat still."

Taking aim at hedge funds, with their high expenses, Buffett then offered to bet $500,000 that no investment professional "could select a set of at least five hedge funds – wildly-popular and high-fee investing vehicles – that would over an extended period match the performance of an unmanaged S&P-500 index fund charging only token fees."

Only one — one! — investment pro took the bet. Not surprisingly, Buffett will win the bet, by a very comfortable margin. And yet foundations and those who advise them are pouring more, not less, money into hedge funds.

EVERYONE WANTS TO BE SPECIAL

Buffett has a theory about why those in charge of foundations entrust their endowments to active money managers and hedge funds:

The wealthy are accustomed to feeling that it is their lot in life to get the best food, schooling, entertainment, housing, plastic surgery, sports ticket, you name it. Their money, they feel, should buy them something superior compared to what the masses receive.

In many aspects of life, indeed, wealth does command top-grade products or services. For that reason, the financial "elites" – wealthy individuals, pension funds, college endowments and the like – have great trouble meekly signing up for a financial product or service that is available as well to people investing only a few thousand dollars.

Vanguard's Chris Philips has a similar theory:

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There is this perception that by going index you are ceding that you do not have any skill and you are going to be average in the marketplace. That doesn't feel good. As humans, we want to be good. We don't want to be average.

Foundation executives may be especially prone to believe that they deserve better than "average" investment advice. By dint of their position, they are often told that they are wiser, funnier and better-looking than average.

Jeffrey Hooke, a senior lecturer at the Johns Hopkins Carey Business School and a former investment banker, says the trustees of foundations who serve on their investment committees are likely to favor active asset management.

The people on the boards tend to be in the business. They're private equity executives, they're stockbrokers or they're in hedge funds. They're totally biased in favor of active managing because that's how they've made their living.

Hooke has researched public pension funds and found that they, too, underperform the markets by choosing active managers. Investment officers don't want to talk themselves out of a job, he says:

They are never going to walk into the boardroom and say, 'Hey, it just isn't working.' They've got wives, they've got mortgages they've got kids.

These investment officers aspire to be the rare bird who can consistently outperform the market, like David Swensen, the storied portfolio manager at Yale. (I profiled Swensen in 2005 for the Yale Alumni Magazine.) But Swensen, like Buffett, says that identifying the best asset managers is exceedingly difficult. In a 2009 interview, Swensen told me that investors who rely on "low-cost, passively managed index funds" and rebalance regularly will "end up beating the overwhelming majority of participants in the financial markets." **Buffett has said that in the course of his lifetime he has identified only about 10 investment professionals who can beat the markets over time; there are about 87,000 foundations in the US.**

PAY FOR PERFORMANCE?

In fairness, the foundation trustees and investment officers labor under a peculiar burden. They are obligated by law to give away five percent of their assets every year. So if they want to exist in perpetuity, they must earn in excess of five percent on their investments, which is a tall order. **Of course, no foundation is entitled to live forever**. If some spend down their assets, well, new foundations come along all the time.

Most foundations, though, aim to survive in perpetuity, and chase superior returns, at a cost. Consider, for example, the Ford Foundation, which, with assets of $12.2 billion (as of 12-31-2015), is the second-biggest foundation in the US, behind the behemoth Bill & Melinda Gates Foundation.

In 2015, the Ford Foundation's highest-paid employee was vice president and chief investment officer Eric Doppstadt, who was paid $2.1 million. He was followed by director of public investment Michael Walden at $1,017,061, director of private equity Sherif Nahas at $972,362 and director of hedge funds William Artemenko at $955,479. All were paid more than Darren

Walker, Ford's president, whose compensation was $788,542, according to Ford's Form 990-PF filing,

Then there were Ford's outside asset managers. In 2015, they included Silchester International Equity Management which was paid $2.2 million, Wellington Energy Investment Advisor, which collected just under $2 million and Eagle Capital Management, which got $1 million.

How did they perform? "Sharing the investment returns is outside of our policy," says Joshua Cinelli, Ford's chief of media relations, by e-mail.

In this, Ford is typical. At the David and Lucille Packard Foundation, chief investment officer John Moehling was paid $2.3 million, and three other investment professionals earned more than $1 million. All were better paid than Packard's chief executive, Carol Larson. Packard, too, will not disclose its returns.

The Robert Wood Johnson Foundation, William and Flora Hewlett Foundation, Gordon and Betty Moore Foundation and MacArthur Foundation all pay their chief investment officer more than their top executives. The argument for doing so, presumably, is that these investment professionals could make as much money or more in the private sector.

But, again, with the exception of MacArthur and Kellogg, the foundations won't say whether their investment officers and their outside asset managers are delivering market-beating performance.

What we do know is that high pay for money managers does not necessarily translate into superior returns. Interestingly, when pension-fund critic Jeff Hooke analyzed data from 33 state pension systems, he found that **the 10 states with the highest fee ratios achieved lower return rates than those that spent the least.**

TRANSPARENCY AND ACCOUNTABILITY

Foundation endowment returns could probably be calculated by going through years of IRS filings. Unfortunately, the Form 990-PF tax form for foundations is "seriously flawed," "unwieldy" and "unintelligible to the many lay readers, including trustees and journalists," according to longtime foundation executive John Craig.

In a 2011 blog post for the Foundation Center, Craig lamented the fact that investment performance is not solicited on the Form 990:

Since their endowments are the only source of income for most foundations and effective endowment management is a challenge for many foundations, this is an ***egregious omission****—equivalent to not requiring for-profit corporations to report their earnings on tax returns and financial statements.*

I asked Brad Smith, president of the Foundation Center, which promotes transparency through its laudable Glasspockets initiative, why foundations won't disclose their investment returns. "They don't report it because it's not required," he said, "to state the obvious."

Smith went on to say that foundations may be "worried about perverse incentives that could be created by a ranking." If foundations compete to generate the best investment returns, he explained, they could feel pressured to take on risky investments. During the Great Recession, some foundations that pursued aggressive investment strategies had to sell highly-leveraged, illiquid investments at a loss.

Still, I wonder if there's a simpler explanation for the lack of disclosure: Foundation staff and trustees don't want to be held accountable for mediocre results.

If MacArthur and Kellogg are exemplary in their disclosure — Kellogg kindly arranged a phone interview with Joel Wittenberg, its chief investment officer — the Gates and Bloomberg foundations are unusually opaque. Gates Foundation money is housed in a separate trust and is reportedly managed by Cascade Investments, which also manages Gates' personal fortune. (Buffett is a trustee of the Gates Foundation, and presumably keeps an eye on the endowment.) Bloomberg's philanthropic and personal wealth are reported to be managed by Willett Advisors. Cascade and Willett have access to some of the world's top money managers, and may have a shot at outperforming the averages.

This isn't a new issue. Testifying before Congress in 1952, Russell Leffingwell, the chairman of the board of the Carnegie Foundation, famously said:

We publish our investments. We have to be very careful about our investments because we know that others, some others, take investment advice from our list of investments. Well, that is all right. ***We think the foundation should have glass pockets***.

The bottom line: **America's foundations, as a group, are taking money that could be devoted to their programs – to alleviate global poverty, to improve education, to support medical research or promote the arts — and transferring it to wealthy asset managers. They should know better, and they do.**

--Marc Gunther

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Foundations and Endowments: Smart People, Dumb Choices

August 3, 2017

Marc Gunther writes about nonprofits, foundations, business and sustainability. He also writes for NonprofitChronicles.com. A version of this post also appears in Nonprofit Chronicles.

America's foundations spend many millions of dollars every year on investment advice. In return, they get sub-par performance.

You read that right: Money that could be spent on charitable programs—to alleviate global poverty, help cure disease, improve education, support research or promote the arts—instead flows into the pockets of well-to-do investment advisors and asset managers who, as a group, generate returns on their endowment investments that are below average.

This is redistribution in the wrong direction, on a grand scale: Foundation endowments hold about $800 billion in investments. It hasn't attracted a lot of attention, but that could change as foundations make their IRS tax filings open, digital and searchable. That should create competitive pressures on foundation investment officers to do better, and for foundation executives and trustees to rethink business as usual investing.

The latest evidence that they aren't doing very well arrived recently with the news that two energy funds managed by a Houston-based private equity firm called EnerVest are on the verge of going bust. Once worth $2 billion, the funds will leave investors "with, at most, pennies for every dollar they invested," the Wall Street Journal reports. To add insult to injury, the funds in question were invested in oil and natural gas during 2012 and 2013, just as Bill McKibben, 350.org and a handful of their allies were urging institutional investors to divest from fossil fuels.

Foundations that invested in the failing Enervest funds include the J. Paul Getty Trust, the John D. and Catherine T. MacArthur Foundation and the California-based Fletcher Jones Foundation, according to their most recent IRS filings. Stranded assets, anyone?

"Endowed private foundations are unaccountable to anyone other than their own trustees."

Of course, no investment strategy can prevent losses. **But the collapse of the Enervest funds points to a broader and deeper problem–the fact that most foundations trust their endowment to investment offices and/or outside portfolio managers who pursue active and expensive investment strategies that, as a group, have underperformed the broader markets.**

How costly has this underperformance been? That's impossible to know because most foundations do not disclose their investment returns. This, by itself, is a troubling; it's a reminder that endowed private foundations are unaccountable to anyone other than their own trustees.

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On disclosure, there are signs of progress. The Ford Foundation says it intends to release its investment returns for the first time. A startup company called Foundation Financial Research is compiling data on endowments as well, which it intends to make available to foundation trustees and sell to asset managers.

What's more, as the IRS Form 990s filed by foundations become machine readable, it will become easier for analysts, activists, journalists and other foundations to see exactly how billions of dollars of foundations assets are deployed, and how they are performing. Advocates for mission-based investment, or for hiring more women and people of color to manage foundation assets are likely to shine a light on foundations whose endowments that are underperforming.

Unhappily, all indications are that most foundations are underperforming because they pursue costly, active investment strategies. This month, what is believed to be the most comprehensive annual survey of foundation endowment performance once again delivered discouraging news for the sector.

The 2016 Council on Foundations–Commonfund Study of Investment of Endowments for Private and Community Foundations® reported on one-year, five-year and 10-year returns for private foundations, and they again trail passive benchmarks.

The 10-year annual average return for private foundations was **4.7 percent,** the study found. The five-year return was **7.6 percent**. Those returns are net of fees—meaning that outside investment fees are taken into account—but they do not take into account the considerable salaries of investment officers at staffed foundations.

By comparison, Vanguard, the pioneering giant of passive investing, says a simple mix of index funds with 70 percent in stocks and 30 percent in fixed-income assets delivered an annualized return of **5.4 percent** over the past 10 years. The five-year return was **9.1 percent**.

These differences add up in a hurry.

Warnings, Ignored

The underperformance of foundation endowments is not a surprise. In a Financial Times essay called The end of active investing? that should be read by every foundation trustee, Charles D. Ellis, who formerly chaired the investment committee at Yale, wrote:

"Over 10 years, 83 per cent of active funds in the US fail to match their chosen benchmarks; 40 per cent stumble so badly that they are terminated before the 10-year period is completed and 64 per cent of funds drift away from their originally declared style of investing. These seriously disappointing records would not be at all acceptable if produced by any other industry."

The performance of hedge funds, private-equity funds and venture capital has trended downwards as institutional investors flocked into those markets, chasing returns. Notable investors including Warren Buffett, Jack Bogle (who as Vanguard's founder has a vested interest in passive investing), David Swensen, Yale's longtime chief investment officer, and Charles Ellis have all argued for years that most investors–even institutional investors–should simply diversity their portfolios, pursue passive strategies and keep their investing costs low.

In his most recent letter to investors in Berkshire Hathaway, Buffett wrote:

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"When trillions of dollars are managed by Wall Streeters charging high fees, it will usually be the managers who reap outsized profits, not the clients. Both large and small investors should stick with low-cost index funds."

For more from Buffett about why passive investing makes sense, see my March blogpost, Warren Buffett has some excellent advice for foundations that they probably won't take. Recently, Freakonomics did an excellent podcast on the topic, titled The Stupidest Thing You Can Do With Your Money.

That said, the debate between active and passive asset managers remains unsettled. While index funds have outperformed actively-managed portfolios over the last decade, Cambridge Associates, a big investment firm that builds customized portfolios for institutional investors and private clients, published a study last spring saying that this past decade is an anomaly. Cambridge Associates found that since 1990, fully diversified (i.e., actively managed) portfolios have underperformed a simple 70/30 stock/bond portfolio in only two periods: 1995–99 and 2009–2016. To no one's surprise, Cambridge says: "We continue to find investments in private equity and hedge funds that we believe have an ability to add value to portfolios over the long term." Portfolio managers are also sure to argue that their expertise and connections enable them to beat market indices.

But where is the evidence? To the best of my knowledge, seven of the U.S.'s 10 biggest foundations decline to disclose their investment returns. I emailed or called the Getty, MacArthur and Fletcher Jones foundations to ask about their investments in Enervest and was told that they do not discuss individual investments. They declined comment.

To its credit, MacArthur does disclose its investment performance of its $6.3 billion endowment. On the other hand, MacArthur has an extensive grantmaking program supporting "conservation and sustainable development." Why is it financing oil and gas assets?

Ultimately, foundation boards are responsible for overseeing the investment of their endowments. Why don't they do a better job of it? Maybe it's because many foundation trustees—particularly those who oversee the investment committees—come out of Wall Street, private equity funds, hedge funds and venture capital. They are the so-called experts, and they have built successful careers by managing other people's people. It's not easy for the other board members, who may be academics, activists, lawyers or politicians, to question their expertise. But that's what they need to do.

And, at the very least, foundations ought to be open about how their endowments are performing so those who manage their billions of dollars can be held accountable.

--Marc Gunther

What the Open 990-PF Means to Your Foundation

I Thought I Knew You: Grants Data & the 990PF

August 23, 2017

Martha S. Richards is the Executive Director of the James F. and Marion L. Miller Foundation in Portland, Oregon.

I have a confession to make. Up until a few years ago when this story begins, I used to take the 990PF for granted. I thought of it as something that ensured we were following federal regulations and that if we filed it on time and followed the reporting practices we had always used, that this would be sufficient for all concerned. I was also pretty certain no one but a few insiders within the government and perhaps a handful of philanthropy groups would ever bother to read it.

Well, you might have heard the expression: "You don't know what you don't know," and that's a good segue to what I have to share.

In Spring 2010, the Coalition of Communities of Color (CCC) released a study — *Communities of Color in Multnomah County: an Unsettling Profile* — which defined the disparities facing communities of color in Oregon's largest urban area, Portland. Inspired by this analysis, that December, Foundation Center (FC) and Grantmakers of Oregon and SW Washington (GOSW) co-presented *Grantmaking to Communities of Color in Oregon* — a groundbreaking report that acknowledged that philanthropy was part of the problem. The report estimated only 9.6% of grants awarded in 2008 by Oregon private and community funders actually reached communities of color.

While the data told a moving story, the source of the data also became a parallel conversation because the philanthropic community here in Oregon learned about the limitations of using tax returns to tell such important stories. The grant descriptions in our 990s rarely disclose details about the intended beneficiaries of the grants—even if we know them.

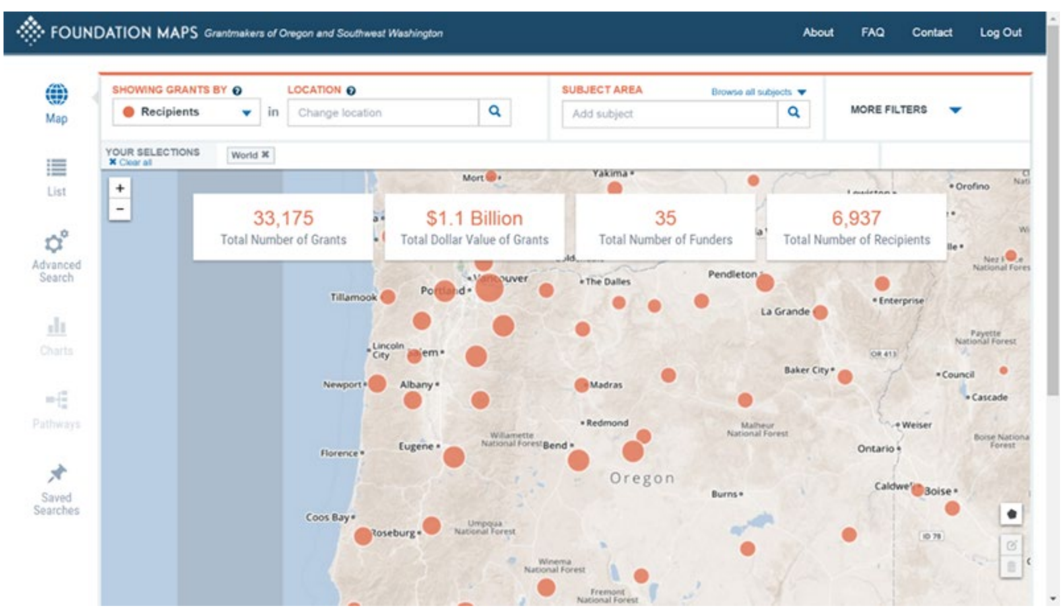
The result: We embarked on a long journey to address both issues. While GOSW and CCC hosted a forum to raise awareness of the reports and their attendant policy recommendations, foundations committed to look more closely at their giving practices as well as their data collection efforts, especially emphasizing collecting better beneficiary data, and reporting relationship with Foundation Center.

This prompted us at the James F. and Marion L. Miller Foundation to examine our own giving and how we could describe its reach. We fund in the areas of arts and K-12 education. We have a small staff. Our application process did not require a detailed analysis of demographic data from arts applicants or schools, nor an understanding of the diverse nature of nonprofit leadership among our grantees. We realized that we did not know if the grants we made were reaching the populations we hoped to serve.

As part of this effort, I chaired a GOSW-led Data Work Group to explore how to obtain more meaningful data sets without adding to the length and complexity of our application processes. We invited nonprofit partners to the table. We studied Foundation's Center's processes and invited their staff to meet with and advise us. We tried, tested, and began to encourage nonprofits to help us learn more about how and who we were reaching with our philanthropic dollars. Eventually, we encouraged many of our Oregon foundations to become eReporters to Foundation Center, providing more detailed descriptions of what the grant was for, and who was reached with the funding. Our reports to the Foundation Center and to the IRS have improved, and we make an effort to report detailed demographic information.

Grantee	Before	After
Adelante Mujeres	program support for Chicas Youth Development	to provide support for the Chicas youth development program which serves low-income Latina immigrant girls in western Washington County.
All Classical Public Media	to expand operations	program support for the Thursdays @Three show, including equipment improvements and promotional materials
Business Education Compact	for the Teacher Development Initiative	in support of the Teacher Development Initiative: helping k-12 educators teach & adopt proficiency practices in the classroom

However, we discovered that it can be difficult for some types of organizations to capture specific demographic data. In the arts, for instance, outside of audience surveys, one generally does not complete a demographic survey to buy a ticket. At the Miller Foundation, we chose to partner with DataArts to collect financial and audience data on our arts grantees. Arts organizations annually complete the profile and it can be used for several arts funders in the state. Their demographic profile is still being developed, but it will encourage better data information and capture in the future. Unfortunately, this platform does not exist for other nonprofits.



What the Open 990-PF Means to Your Foundation

Get on the Map encourages foundations to share current and complete details about their grantmaking with Foundation Center. The interactive map, databases and reports allow foundations to have a better understanding of grantee funding and demographics.

We didn't know it then, but as a result of our committee's efforts, a new data improvement movement was born, called Get on the Map (GOTM). GOTM encourages foundations to share current and complete details about their grantmaking with Foundation Center, so the Maps, databases, and reports it issues are as accurate as possible. The grants we share also populate an interactive map that members of GOSW have access to, which means that we have a better idea of the ecosystem in which we work. It has since scaled nationally with other regions also committing to improve the data they collect and share about their grantmaking so we can all be less in the dark about what efforts are underway and who is working on them.

As a result, today our foundation has a better understanding of who our grantees are serving and reaching today, than we did seven years ago, and I think we are also doing a better job of sharing that story with the IRS, Foundation Center, and the many sets of eyes I now know view those platforms.

We are still learning what we do not know. But at least, now we know what we do not know.

— Martha Richards

What the Open 990-PF Means to Your Foundation

Is Your 990-PF Working Against You?

September 12, 2017

Lauren Haverlock has practiced public accounting since 2004. As a senior manager at Moss Adams LLP, she provides compliance and consulting services to all types of exempt organizations, including public charities and private foundations.

As a CPA specializing in tax exempt organizations, the annual 990-PF form that private foundations must file with the Internal Revenue Service (IRS) is the source of many questions I receive. And now that this data is not just publicly available, but open, it is wise for us all to take a closer look at whether your 990-PF may unintentionally be working against you.

Of course, the IRS has been gathering data on 990-PF filers for years. It has used this data to better identify and investigate anomalous and non-compliant private foundations. But now, all electronically filed Form 990-PF data is available to the general public in machine readable formats opening up the investments, portfolio performance, grant recipients, expenses, and transactions of foundations like never before.

Now that this information is publicly available in machine readable format, it can be easily aggregated to provide valuable insight into the industry as a whole. It can also highlight outliers. Ultimately, the availability of this data provides a window into private foundations, many of which were previously used to operating outside the public eye. As Glasspockets has reported, currently only 10% of U.S. foundations even have a website, so if your foundation is among the 90% that do not, that means that your 990-PF is the only source of intelligence about your organization.

In the new world of readily available machine-readable Form 990s, private foundations will want to verify their tax filings—the source of their data—are prepared completely and accurately. Common mistakes to watch out for when filing the Form 990-PF are detailed in this article.

Transactions

Private foundations face more burdensome regulations on investments and expenses than 501(c)(3) public charities:

- Restrictions on how money is spent
- Requirements as to how much money is used for charitable purposes
- Rules regarding how endowments can be invested

The consequences for noncompliance in regards to the above transactions can range from excise-tax penalties assessed on the foundation or its managers to revocation of exempt status.

Specific items to be aware of include the following:

- Prohibited transactions with a disqualified person, including trustees, directors, and foundation managers as well as certain family members and businesses of the aforementioned.
- Failure to meet the minimum distribution requirement in a previous year
- Excess business holdings of an active trade or business
- Risky asset investments that could jeopardize a foundation's charitable purpose (for example, not having a diversified portfolio of investments)
- Certain types of expenditures, such as foreign grants, grants to for-profit entities, unapproved scholarships, or lobbying and political activities, are either prohibited outright or require extra diligence to be permissible.

For example, foundations are permitted to reasonably compensate a disqualified person for personal services. And an organization can grant funds to foreign or for-profit organizations if expenditure responsibility is exercised. And more details about what is permissible in regards to political funding appears below. But the main point here is just the affirmation of these closely scrutinized transactions could raise the risk profile of a private foundation.

Net Investment Income

Although considered tax-exempt, private foundations are still required to pay an excise tax at a rate of 1% or 2% of the income they generate. As such, investment income is of intense focus when foundations file their tax returns. Foundations should remember that the calculation of taxable income should be undertaken with the same tax-reduction mindset that for profit entities and individuals undertake.

"Ultimately, the availability of this data provides a window into private foundations, many of which were previously used to operating outside the public eye."

The Form 990-PF reports income both on a book and on a tax basis on Page one. A foundation should ensure that it is properly capturing all taxable income from all sources and not simply assuming that taxable income is the amount reported on their financial statements. For example, private foundations with "alternative investments," including private equity, hedge funds, managed futures, real estate, commodities and derivatives contracts, could receive a Schedule K-1 from their investments. Flow-through income from that Schedule K-1 should be reported in the foundation's tax-basis income statement.

Additionally, any excise tax a foundation pays could bring negative attention. If an entity consistently pays the higher excise tax of 2%, it could lead donors to question why the foundation is giving money to the IRS in the form of taxes rather than providing grants.

Balance-Sheet Investments

Private foundations are required to report the details of their investments, including the number of shares and types of publicly traded stock held. Reporting this can often be burdensome and feel invasive, but failure to include this information could result in an incomplete Form 990-PF. An incomplete Form 990-PF is deemed to have never been filed in the first place, which could result in late-filing penalties or revocation of exemption if it occurs three years in a row.

Lobbying and Political Activities

Private foundations are prohibited from undertaking any lobbying or political activities, unlike 501(c)(3) public charities, which are permitted to undertake limited lobbying activities. However, not all actions related to politics are prohibited—private foundations can undertake certain bipartisan educational activities or support charities that undertake lobbying if they follow certain guidelines. For example, the specific project grant rule, when followed, could allow a private foundation to fund a project that explicitly has lobbying activities.

Grant Reporting

The grant reporting schedule seems innocuous, but it can weave a story of relationships that extend beyond grantor and grantee. The grant recipients of private foundations are public, which means the public can gather data regarding which organizations a foundation supports by using data-mining tools.

Although this information can be valuable to fundraisers and your grantmaking peers, it can also reveal an informal or unclear grantmaking process and serve as an inadvertent disclosure of taxable expenditures. As such, a foundation should ensure that there is a due diligence process related to grant recipients that verifies if a recipient is a qualified 501(c)(3) public charity, and use the space provided in the 990-PF (Part XV) to explain its grantmaking process, deadlines, and eligibility requirements.

While grants to other types of entities are permitted, if certain expenditure responsibility procedures are not followed, this type of granting could possibly raise a red flag. Any grantee that reports a foreign address, appears to be a corporation, or otherwise stands out could still garner a foundation unwanted attention from the general public and IRS. Grantmakers making grants to foreign organizations also have the option of using a process called equivalency determination to demonstrate how they determined that a foreign organization is equivalent to a U.S. charity. The grantmaker is required to collect a specific set of data, as outlined in IRS Revenue Procedure 92-94, that provides details about the grantee's operations and finances.

Private foundation contributor schedules are public, which means anyone can pull these donor lists. With open-source data, foundation support can be easily compiled and aggregated to better understand an ecosystem of donors and support—keeping a private foundation accountable to the community it serves.

Even though the Form 990-PF is a government filing, its public nature and the increased openness of its data may lead to both greater interest and scrutiny in the private foundations filing it. Take control of your financial story by filing timely, complete, and accurate Form 990 returns, paying special attention to the areas noted above, and ultimately what increases may be a greater understanding of the field itself.

--Lauren Haverlock

What the Open 990-PF Means to Your Foundation

No Pain, No Gain: The Reality of Improving Grant Descriptions

November 8, 2017

Gretchen Schackel is Grants Manager of the James F. and Marion L. Miller Foundation in Portland, Oregon.

You know those blog posts that describe adopting a best practice? The ones that make it sound so easy and tempting that you try it, only to be let down because you discover that either you are doing something terribly wrong, or it is a lot harder than the author made it sound because they left out all of the pain points? Well, don't worry—this is not one of those posts! In fact, I will start off with the pain points so you can go in eyes wide open, if like me, you end up on a quest to improve your foundation's grant descriptions.

This post is a sequel to another Transparency Talk article that recently featured our foundation's executive director, detailing lessons learned about why improving grants data is important to the foundation, as well as to the sector as a whole. That article ended with a brief snapshot of some "before and after" grant descriptions, showing how we are working to improve the way we tell the story of each grant, so I'm picking up here where that left off to share an honest, behind-the-scenes look at what it took to get from the before to the after.

"Capturing critical details when writing accurate and complete grant descriptions aids your efforts on the 990-PF form."

Pain Relievers

As the grants manager, it's my job to put the right processes in place so we can capture critical details when writing grant descriptions to ensure that they are accurate and complete, and well....actually descriptive (AKA "Purpose of grant of contribution" on form 990-PF). This fall marks my 11-year anniversary at the Miller Foundation and one thing that has remained constant throughout my tenure is what a pain writing good grant descriptions can be if you don't know where to begin. So, I'm sharing my playbook below, because the communities we are serving, and how we are serving them, deserve to be described and celebrated. I've learned some tips and work-arounds along the way that I'll share as I inventory the various obstacles you might encounter

Pain Point #1:

Lean Staffing. We are a staff of four people: Executive Director, Program Officer, Grants Manager, and Administrative Assistant. We don't publish an annual report; we have just started using social media, and just completed a website redesign. This makes all of us part-time communications staff. I wouldn't describe this as a best practice, but it's the reality at many foundations.

Pain Reliever #1:

What the Open 990-PF Means to Your Foundation

Grant Descriptions Can Serve Many Purposes. As mentioned above, the editorial process involved in prepping text for public consumption can be labor intensive, particularly in organizations without a communications department. Grant descriptions, which represent the substance of our work, turn out to be handy for small organizations like ours because they can serve many purposes. They are used for our minutes, our website, our 990-PF, and for our eReport to Foundation Center for its searchable databases. We don't have time to write different grant descriptions for each specific use. So, we write one grant description that we can use in multiple platforms and situations.

Pain Point #2:

Garbage In – Garbage Out. Data starts with the grantees, and I know from talking to them that they are often not well equipped with time or technology to collect good data. It's not just about what questions are we asking but rather how are we helping our grantees understand what we need and help them get us the best data possible.

Pain Reliever #2:

You have to work with what you've got. And what we have is the information provided by the potential grantees in their applications. Most of the information we need can be found in the "Brief summary of the grant request" question on the grant application. Rather than treat this as a test that potential grantees must either pass/fail, we provide detailed instructions of the kind of information we would like to see in the summary as part of our online application process. Taking the guesswork out of the application has improved the data quality we receive at the start of the grant. Our arts portfolio also requires that grantees participate in DataArts, which serves as a collective database that grantees only have to enter once and then all arts funders can access their data. Participating in field-building shortcuts like this is a great way to make the process more efficient for everyone.

Once you have the framework in place to get a good grant summary from your prospective grantees, however, your work is not yet done. Often, important elements of the funded grant can change during board deliberations, so I find it essential to share the grant summary with our program staff before finalizing to ensure we are capturing the detail accurately.

Pain Point #3:

Lack of an industry standard on what makes the perfect grant description. There are probably as many ways to write a grant description as there are foundations, and reinventing wheels is a waste of our collective time, so I have long wished for a framework we could all agree to follow.

Pain Reliever #3:

The Get on the Map Campaign.

We have learned a lot from Foundation Center's Get on the Map campaign about the elements of a great grant description. The Get on the Map campaign is a partnership between United Philanthropy Forum and Foundation Center designed to improve philanthropic data, and includes a helpful framework that details the best way to share your data with Foundation Center and the public. What I immediately loved about it is how it reminded me of being that weird kid who loved to diagram sentences in junior high. But perhaps it's not that strange since I know grants managers enjoy turning chaos into order. So, let's try to use sentence diagramming as a model for writing grant descriptions.

The Anatomy of a Good Grant Description

First, we'll start with the four elements of a good grant description and assign each a color.

- **WHAT**: What is the primary objective of the grant?
- **WHO**: Are there any specifically intended beneficiaries?
- **HOW**: What are the primary strategies of the grant?
- **WHERE**: Where will the grant monies serve if beyond the recipient address?

Example #1:

We'll start with an easy example. Program support grant descriptions often write themselves**:**

Brief summary of the grant request from application form:

"We are seeking support for Chicas Youth Development which serves over 500 Latina girls and their families in grades 3-12 in Washington County. Chicas launched in 2008 and has since grown to partner with three Washington County school districts and over 500 local families each year to offer after school programming, leadership, and community service opportunities for Latina youth and their families."

Grant Description: to support the Chicas Youth Development program which serves 500 Latina girls in grades 3-12 located in Washington County.

That was pretty easy!! Particularly because of how we improved the clarity of what we ask for.

Example #2:

The grant below is also a project grant but the **Brief summary of the grant request from the application** is a little less straight forward:

"GRANTEE requests $AMOUNT to support the presentation of two new publications and four community readings featuring the writing of diverse voices: people who are experiencing homeless, immigrants and refugees living in our community, seniors living on a low income, LGBTQ folks, people living with a disability, and many others whose voices often live on the margins. This project will bring together people to experience and explore art and will focus on those with the least access to do so."

Grant Description: To support community building through publication and public readings of works written by marginalized populations.

Example #3:

This grant is for both **general operating support and a challenge grant**. Tricky.

GRANTEE respectfully requests $AMOUNT over two years to support program growth as well as provide a matching challenge for individual donations as we continue to increase our sustainability through support from individual donors. If awarded, $AMOUNT would be put to general operating funds to support our continued program growth in all areas: traditional high school program, statewide initiative pilot program and our college program. The remaining $AMOUNT each year would serve as a matching challenge grant. In order to be eligible for the match, GRANTEE would have to raise $AMOUNT in new and increased individual donations each year of the grant period.

Okay Grant Description: To support program growth and provide a matching challenge for individual donations.

Good Grant Description: General operating funds to support program growth and a challenge grant to increase support from individual donors.

Better Grant Description: This grant was awarded in two parts: 1. General operating funds for mission related activities that provide intensive support to low-income high school juniors and seniors in Oregon. 2. A 1:1 challenge grant to increase support from individual donors.

The above description is a perfect example of why it's important to read the proposal narrative as well as confer with program staff.

If you follow this process, I can't promise it will be painless, but it will go a long way to relieving a lot of the pain points that come with grants management—particularly the grants management of today in which grants managers are at the crossroads of being data managers, information officers, and storytellers. I have found making this journey is worth it. Because, after all, behind every grant lies a story waiting to be told and a community waiting to hear it. So, let's get our stories straight!

--Gretchen Schackel

What the Open 990-PF Means to Your Foundation

Robert K. Ross, MD, President and CEO, The California Endowment: Parkland Students Inspire Foundation to Screen Out Investments in Firearms Manufacturing

March 14, 2018

One month after the school shooting in Parkland, Florida that killed 17 people, students across the country are continuing to press for stricter gun control legislation with protests and school walk-outs. According to the Gun Violence Archive, more than 2,837 gun related deaths have occurred so far this year, and both the American Medical Association and the American Public Health Association have recommended addressing gun violence as a public health issue.

The week following the shooting, The California Endowment (TCE), California's largest healthcare foundation, announced it would begin screening out firearms manufacturing from its investment holdings. TCE's mission is to expand access to affordable, quality health care for underserved individuals and communities and to promote fundamental improvements in the health status of all Californians. TCE's mission statement also outlines that the foundation doesn't focus on prescriptions, but rather "we focus on fixing broken systems and outdated policies, ensuring the balance of power is with the people. We don't focus on the individual, we focus on the larger community as an ecosystem of health. We work with citizens and elected leaders to find lasting solutions to impact the most people we possibly can."

Recently, Glasspockets spoke with TCE president and chief executive officer Dr. Robert Ross, about the foundation's decision to ban firearms investments, and how this aligns with both TCE's stated health mission, and its core values around diversity, equity, and inclusion.

Glasspockets: The California Endowment recently announced that it will be scrubbing its investments of any holdings in firearms manufacturing, and this is actually not a new practice, but the third "negative screen" you are adding, since you already had screening in place for tobacco and for-profit prisons. Data shows that this practice is actually fairly uncommon in foundation philanthropy, so it's clear it's a challenge for the field. When did you begin the practice, and what led to you going down this path initially when you first implemented negative screening?

Dr. Ross: Since we are a health foundation, the founding board actually started with the tobacco screen in the late 90's. We added for-profit prisons more recently, after hearing from community leaders that they considered hyper-incarceration as an unhealthy practice affecting communities of color. This is consistent with our core values statement, which also helps guide our board. The very first item in our values states: "We believe that diversity, equity and inclusion are essential to our effectiveness and the long-term health of all Californians and commit to the integration of diversity, equity and inclusion in all our policies, practices, processes, relationships, internal working culture and systems." By filtering out tobacco, for-profit prisons, and now gun manufacturing we are being consistent with these values.

What the Open 990-PF Means to Your Foundation

"We really have to ask ourselves the question of whether the management of our investments portfolio reflects the values we hold dear."

Glasspockets: There have sadly been many shootings prior to Parkland. What was it about this one that motivated your foundation to act?

Dr. Ross: We were motivated by the youth and high school student activism – I think we were "shamed" to act by their leadership. The California Endowment "values the energy, agility and fearlessness of youth leadership and youth organizing in its many forms including local, statewide and online community-building."

Glasspockets: And are you aware of other foundations being similarly motivated to act, either now or that already had such prohibitions in place?

Dr. Ross: We have followed the leadership efforts of The California Wellness Foundation, Bloomberg Philanthropies and Joyce Foundation, all of which, to the best of my knowledge, already have a screen on firearms in place. I'm not certain how many other funders currently have a firearms manufacturing screen.

Glasspockets: The California Endowment was an early adopter of our Glasspockets approach to a more transparent philanthropy. So clearly transparency, openness, and accountability are priorities. Is your commitment to these values part of what motivated the decision and the public stand you are now taking?

Dr. Ross: Yes, and it was the reason I published the OpEd in the *Chronicle of Philanthropy*. Even though these boardroom conversations can get a little "messy," it strengthens philanthropic practice if we can demonstrate vulnerability and transparency on tough issues. Without actions, our values just become words on a page.

Glasspockets: Glasspockets is currently advising foundations to become more familiar with what holdings they do have, since these are publicly listed on the 990-PF that foundations annually file with the IRS. And that data is now being released as machine-readable, open data—making it more open and accessible than ever before. Is this something TCE is tracking or do you have any internal practices about monitoring what's in your 990-PF that may be helpful for others?

"Without actions, our values just become words on a page."

Dr. Ross: We have begun utilizing ESG (Environmental, Social and Governance) practice approaches, as have many others, as a "values and principles" overlay to our investments portfolio. [*ESG screening is an array of ethical exclusion metrics designed to govern certain investment decisions. Excluded companies can include those in the tobacco, firearms, and for-profit prison industries. The alerts look for mentions of portfolio companies (those not currently excluded) and rate them as positive, negative or neutral in terms of these screens*.]

Glasspockets: The things you are screening out make a lot of sense for a healthcare foundation. Why do you think so few do it? And what advice would you have for them as far as overcoming those challenges?

Dr. Ross: The answer to this is values-values-values. Most foundations have both a statement of mission and a statement of values, and we really have to ask ourselves the question of whether the management of our investments portfolio reflects the values we hold dear. You can't make a blanket values exception for the investments portfolio.

Glasspockets: In terms of the screening that had already been in place, what has been the impact on endowment growth?

Dr. Ross: I'm not sure, but I do know that a concern some raise when discussing this is the belief that growth may be negatively impacted by the lack of tobacco and private prisons holdings. But if you're acting on your values, then I'm not sure the question is material. Slavery is profitable, but we'd never invest in that....

Glasspockets: And how about the qualitative impact—things that bottom lines don't measure?

Dr. Ross: It's good for boardroom cohesion, and messaging to staff and community that we intend to live up to our values, even if it is discomforting. It's hard to put a price tag on reputation and accountability.

--Dr. Robert Ross & Janet Camarena

What the Open 990-PF Means to Your Foundation

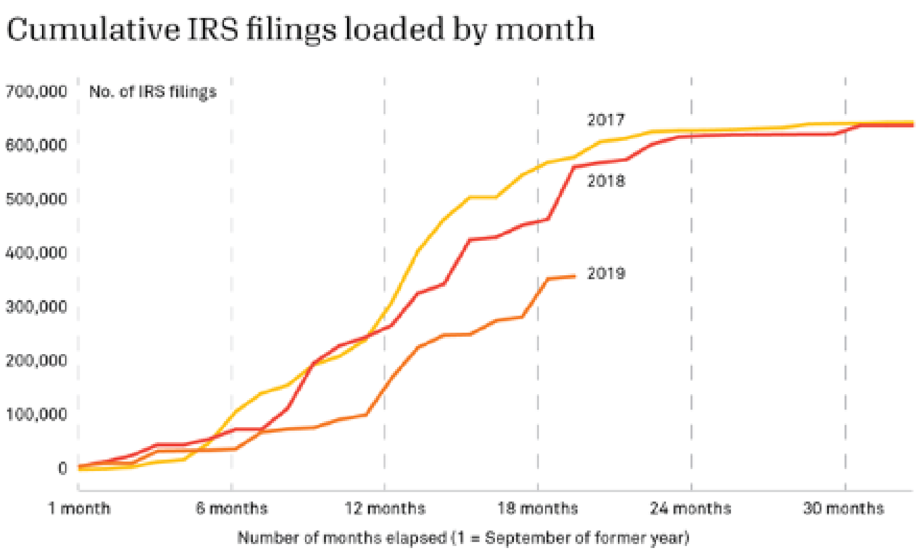
Where are the 2019 (and 2020) 990s? On filling the gaps in Candid's grants data

May 20, 2021

Anna Koob is Candid's Director of Research Standards, Candid; Laia Griñó is Candid's Director of Data Discovery. This post originally appeared on the Candid blog.

People often ask us, "When will the [year just passed] 990s be available?" Because of the way Form 990 deadlines work, the answer is complicated. There's no universal date for filing 990s; instead, the end of an organization's fiscal year determines when its 990 is due at the IRS. Add in six-month filing extensions and IRS processing time, and it can be two years before we receive all the returns for a specific year.

This year, another factor is in play: backlogs created by COVID-19. To date, there are still millions of returns from 2019 that have not yet been processed. This gap is notable because IRS 990 filings are a substantial source of data about nonprofits and foundation grantmaking in the U.S. At Candid, grants data from 990s flows into tools such as Foundation Directory, public dashboards that provide insights into philanthropy in different regions across the U.S., and several issue- and location-specific Foundation Landscapes. Sourcing grants data from 990s isn't ideal to begin with—grant descriptions from filings are often sparse, and sometimes grants lists are missing entirely. And two years is already a long time to wait for this information. The additional delays exacerbate this issue.



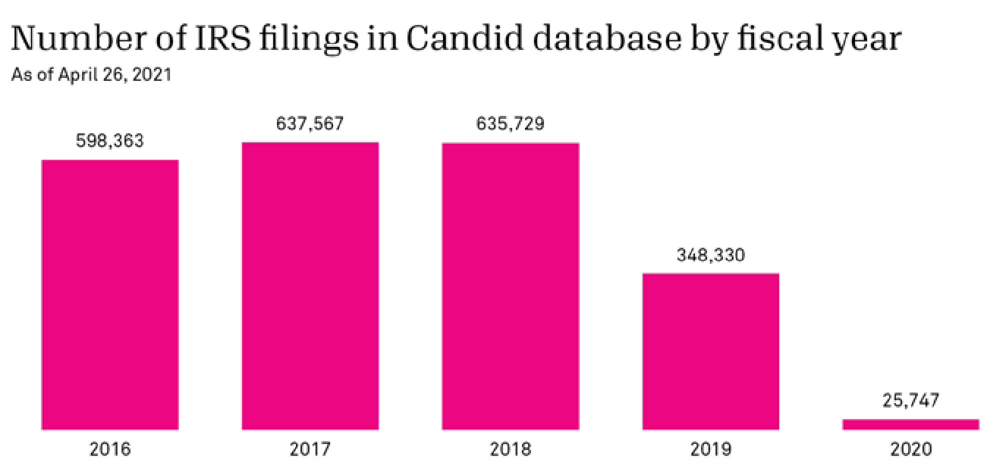
THE IRS ISN'T CANDID'S ONLY SOURCE OF DATA, BUT IT'S AN IMPORTANT ONE

To be sure, Candid doesn't depend exclusively on IRS data. In addition to IRS filings, we collect data about the nonprofit sector and foundation grantmaking from the organizations themselves as well as other publicly available sources. (Our executive vice president, Jacob Harold, wrote about three sourcing methods we use to collect grants data—IRS filings, direct reporting, and web scraping—on the Candid blog.) To date, we've collected data on more than 125,000 grants for 2020 and 2021, most of it from non-IRS sources. Our investment in efforts to collect more real-time data has enabled us to provide the field with insights into the philanthropic response to such crises as the COVID-19 pandemic and the ongoing struggle to achieve racial equity and racial justice.

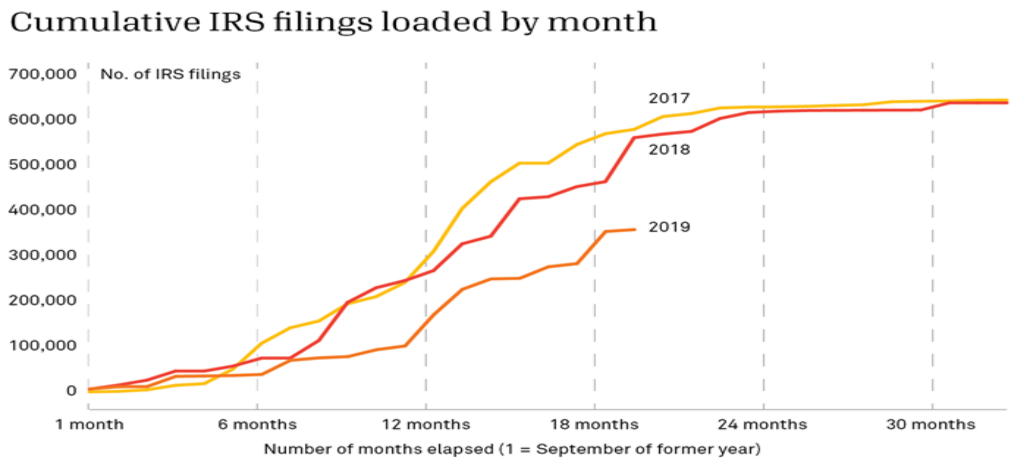
Although real-time grants data is in high demand, "old" IRS 990 data still matters, for two related reasons. First, it is comprehensive; all foundations and grantmaking public charities are legally obligated to disclose data about their grantmaking. By necessity, our most recent grants data is limited to what's been shared directly with us or made public. Second, 990 data provides context. Inevitably, when people see data about what grantmakers are doing "today" (or as close to today as we can get!), they want to know how it compares to what happened before: *"How does the response to the COVID pandemic compare to the response to previous crises, like the Ebola outbreak?" "Are funders providing more general support than in previous years?" "How has funding for Black communities changed since George Floyd's murder?"* Having comprehensive data is what allows us to answer these types of questions with confidence.

A STATUS UPDATE ON FILINGS

The pace at which the IRS releases 990 data has slowed over the last several years. COVID-19 has exacerbated the problem, especially for 2019 and 2020 data. As the charts below illustrate, we're far from having comprehensive data for 2019, let alone 2020. And the rate at which we're receiving 2019 filings has slowed, compared with 2018 filings (and 2018 was somewhat slower than 2017). As of April 2021, we've collected 348,330 filings for 2019, about half of what we expect to collect overall and 37 percent fewer than we had at the same point last year for fiscal year 2018. *[Form types captured in these counts include 990s, 990-EZs, and 990-PFs, filed either electronically or as paper documents. We consider 2018 to be our latest "complete year" of data and would expect to see comparable figures for 2019 and 2020 once collection is finalized. The trendline for 2019 represents filings collected through April 2021.]*



What the Open 990-PF Means to Your Foundation



WHAT THE SLOWDOWN MEANS FOR CANDID'S DATA, HOW WE'RE RESPONDING, AND HOW YOU CAN HELP

Although these delays have implications for all Candid products, they also have a significant impact on our research. They impede the creation of our annual Foundation 1,000 data set, which combines all grants awarded by 1,000 of the largest U.S. funders. This is the data set we, and others, use to derive information about trends in grantmaking, such as on racial justice in education or funding for disasters.

We don't expect the issue of delayed filings to go away quickly. In fact, we anticipate that, despite the new requirements for filing 990s electronically, we may feel the effects of reduced IRS processing capacity for the next couple of years. We're addressing the slowdown in a couple of ways:

- Exploring new methods to allow us to draw valid insights on changes in grantmaking. We recognize the urgent interest in analyses of how things have changed in the past year. We're exploring ways to adjust our methods to work around the delay and meet the demand for this research.
- Continuing to encourage funders to share their grants data directly with Candid. More than 900 funders globally share their grants data with Candid, either directly or via our partners. Candid is currently collecting data on FY20 and FY21 grants to date by June 30, 2021. Funders can contact us at egrants@candid.org to learn how to contribute data to provide a clearer picture of what's being funded and by whom.

Candid exists to get organizations and individuals working in the social sector the information they need to do good. The demand for that information is varied and vast, as are the challenges in providing it. Candid continuously adapts the way we work to address these challenges. As with most problems in the sector, though, the gaps in data caused by limited IRS capacity are not something one organization can fix alone. Good decisions require good information. We're calling on organizations in the sector to recognize the important role they can play in making sure that information is available sooner rather than later, now versus too late.

— Anna Koob & Laia Griñó