



NONPROFIT INSIGHTS

Spring 2012

OBLIGATION AND OPPORTUNITY **Put Your Form 990 to Work**

As part of a major overhaul in 2008, IRS Form 990 was redesigned to enhance transparency and accountability to the IRS and the general public, and to promote compliance with the tax laws that govern nonprofits.

The new form includes probing questions and disclosures about the nonprofit's mission and related accomplishments, financial information, and governance and management policies, to name just a few.

IRS Form 990 is open to public inspection (excluding Schedule B) and, with today's technology, can be and is widely distributed to the general public. With this high degree of availability to the general public, why not put your Form 990 to work for your nonprofit?

In its highest and best use, Form 990 offers a way to demonstrate your commitment to your mission while sharing a story of solid governance and wise stewardship. Consider these key areas that you can strategically tap for opportunity:

Your Mission

Your organization's mission statement is now prominently located on page one of Form 990, allowing any reader to immediately understand why your organization exists.

Opportunity: Use this prime space to positively describe your mission, accomplishments and new initiatives. Don't simply cut and paste the same description from year to year. In light of IRS instructions, this can result in false reporting if you fail to note changes in programs.

Action: Carefully review your mission statement. Is it clearly written? Does it accurately convey what you are currently doing? Does it present your organization in the best possible light? State accomplishments in numerical quantities (e.g., number of clients served, number of meals served) and use quantitative measures of results to describe each program's outcome.

For example, don't simply state the minimum information, "Summer Jobs Program: \$258,680."

Instead, say something like, "Trained, coached and successfully placed 182 low-income teens in various summer jobs."

Financial Reporting

For the first time, the new Form 990 prominently features comparative financial information on the front page (current year and prior year). Just as with a publicly traded company, readers can now easily make year-to-year financial comparisons.

Opportunity: This comparative information can greatly increase reader insight into your organization's performance, perhaps leading to an increase in inquiries. Ultimately, these inquiries provide the opportunity to educate an interested public about your stewardship of their gifts and the real impact those gifts are making.

Action: Develop a strategic communications plan that includes responses to potential questions, a strategy for responding to inquiries and delegation of a spokesperson. Of course, pay particular attention to any potentially contentious information that could impact your credibility.

Organizational Changes

Were any "significant changes" made to your organization's governing documents (e.g., articles of incorporation, bylaws, amendments) since the prior Form 990? Perhaps you changed the means of electing board members or the number of votes required for board action. If these changes were noted in your governing documents (which they should be), the IRS clearly expects you to inform donors (Part VI, line 4).

Opportunity: Use this reporting requirement as an opportunity to update your governing documents (critical for maintaining tax-exempt status).

Action: Conduct an annual internal review of organizational documents and generate an internal report detailing the review process, as well as the findings.

Put Your Form 990 to Work, cont'd.

Expenses

The Statement of Functional Expenses is the four-column section in which you are asked to report types of expenses (such as salaries, rent, postage, grants made, etc.) and then divide and assign those costs to the functions of Program, Management/General or Fundraising.

Opportunity: This is your chance to show donors and the public that you have properly spent funds in a manner that best advances your mission.

Action: Create an internal ledger to capture the information necessary for accurate expense allocations. Record expenses in each of their natural classes (like insurance or salaries), and allocate each expense to the appropriate functional expense category. Train employees and others who report their time and expenses to properly allocate their time and purchases.

Governance and Management Policies

The redesigned Form 990 asks specific questions about governance and management practices. These include whether your organization has implemented policies relating to everything from executive compensation and conflicts of interest to document retention and destruction.

Opportunity: Part VI of Form 990 provides insight and an opportunity for the nonprofit to demonstrate to the IRS and the general public that the organization has adopted governance policies considered to be best practices. Meeting these standards sends a clear message to donors and stakeholders that your organization is following generally accepted best practices.

Action: Have your board and executive director review the governance questions in Part VI of Form 990 to determine whether governance practices and policies should be implemented or changed. Then, disseminate documentation of all policies and procedures throughout the organization (administration, staff and board) and incorporate a review process for policies and procedures into your annual plan.

Board Review

You'll be asked to describe in Schedule O the process by which your governing body reviewed the organization's Form 990 before filing.

Opportunity: There is no statutory or regulatory requirement that an organization's governing board be supplied with Form 990 before it is filed. But making sure your board members and executives review - and understand - what's being submitted each year sends a strong message that you value open, informed and accountable governance.

Action: Start by educating board members about their fiduciary responsibilities, including specific training in how to interpret financial statements and audit results, and about the IRS Form 990 and its role as a public document. Then, have the entire board review the Form 990 before it is submitted. If necessary, designate a special session for this, such as an executive session or a board/staff retreat.

Challenges ... and Benefits

Finally, remember that despite the challenges, there are benefits. Just be sure to choose what you say carefully and present it clearly. And utilize this attempt at increased transparency as the marketing opportunity it truly is.

Questions about this important document? Contact our office today for help in understanding and complying with IRS Form 990 requirements.

Smaller Nonprofits Also Face Reporting Requirements

Nonprofits with annual gross receipts that are normally \$50,000 or less for tax years ending on or after December 31, 2010, are required to file an ePostcard (Form 990N) every year. The only information required on the ePostcard is:

- The organization's name, mailing address, website address, employer identification number (EIN) and annual tax period.
- The name and address of a principal officer of the organization.
- A statement that the organization's annual gross receipts are normally \$50,000 or less.

An organization that fails to file Form 990N for three consecutive years will automatically have its tax-exempt status revoked. This makes it critical that responsible officers of small nonprofits implement procedures to ensure that the Form 990N filings are completed.

STEPS FOR SUCCESS

How to Find Your Next Great Board Member

In a perfect world, board members would always enjoy lengthy and productive tenures. But today, the board lifecycle has accelerated. Board members come and go more often, creating the ongoing challenge of finding your next great board member.

Consider these five steps for finding committed and competent board members who will help your organization meet future challenges:

Step 1: Determine your needs. The first step in building a well-rounded board involves conducting a “gap analysis” of your current board, where you identify gaps in expertise, experience or diversity. Then create your own wish list of potential new board members.

Poll your current board and staff for suggestions and visit board or volunteer recruitment websites such as:

- **BoardNetUSA** (<http://boardnetusa.org>)
- **BoardSource** (<http://boardsource.org>)
- **VolunteerMatch** (<http://volunteer match.org>)

Also contact your state association of nonprofits, local United Way and community foundations to learn about board-match programs in your area.

Step 2: Learn the art of cultivation. It may be best to think of the recruitment process in terms of “cultivating” the interest of potential board members. Ask too soon, before they have a true understanding of the organization and their duties, and they may bolt. Instead, consider taking candidates on a “test drive” — asking them to serve on a task force or volunteer for a program first. Likewise, you can invite potential board members to attend a board meeting as an invited guest to see the board in action.

Step 3: Identify and invite. Of course, the task of identifying and inviting potential new board members should be ongoing and shared by all. But extending the actual invitation to a prospect is best left to board members who have been specifically authorized to do so. This should occur after the nominating committee or board development committee has vetted a list of potential prospects — and made a strategic decision on who should make the invitation.

Step 4: Promote diversity. In her book, *The Best of the Board Cafe: Hands-On Solutions for Nonprofit*

Boards, Jan Masaoka points to the insidious danger of starting board recruitment with the question, “Who do we know?” She aptly points out that limiting the search to people whom board members already know establishes a very small field from which to recruit.

Instead, reach into other communities and constituencies to find candidates with genuinely different backgrounds and perspectives. Then, consider bringing two or three onboard at once to avoid putting a single member in the position of having to represent an entire constituency.

Step 5: Reconsider “give or get” policies. The requirement of each board member to donate or cultivate donors to provide a minimum amount to the nonprofit is a longstanding tradition of nonprofit boards. But rigidly enforcing a “give, get or get off” policy in this economy could mean losing some otherwise effective and dedicated board members.

Show some flexibility by allowing the “get” to be done in a variety of ways - from directly asking friends and family to arranging matching gifts through their employer and even writing grant proposals. For some practical fundraising strategies and guidelines, have your board members read James M. Greenfield’s *Fundraising Responsibilities of Nonprofit Boards*, Second Edition, which is available both in paperback and e-book format.

Step 6: Conduct board training. Hold board training sessions for new members to not only acquaint them with your organization’s ways of doing things, but also the fundamental duties of a nonprofit board member (e.g., the duty of loyalty). It’s critical that new board members clearly understand the difference between governance and management - only one of which a board member is charged to do.

Engage Them

Look for the committees and assignments that suit the new board member, and assign a mentor. Also remember the little things, like using nametags at meetings so that new board members can more easily get to know their new set of colleagues.

No matter what stage your board is in, our nonprofit advisors can help. Call on us to facilitate your board and planning processes.

Twitter Best Practices for Nonprofits

Twitter can be an incredibly valuable tool for driving traffic to your organization's website and building your brand. Consider these tips for maximizing your impact on Twitter:

Be authentic. Nowhere is voice more important than on social media. Relax, experiment and find your voice.

Be nice. The more you retweet (RT) others, the more they will RT you in return. And the more people tweeting and re-tweeting about your organization, the better. You *are* always asking your followers to "Please RT!," right?

Provide value. No chit-chat! People follow you (and retweet your messages) when you provide solid content on subjects related to your mission. Relevant and inspiring quotes from famous people consistently get retweeted. Ditto for surprising or shocking stats and factoids related to your organization's mission.

Tweet outside content. Tweet articles or posts by your favorite newspapers, bloggers or other sources.

Limit your Tweets. Polling on Twitter and in the twitterverse shows that less is more (1-5 tweets per day). And avoid syncing Twitter with LinkedIn and Facebook, which are entirely different types of communities. Five "status updates" on Facebook and/or LinkedIn is annoying to most users.

Go live. Tweet on the go from conferences, board meetings and events using m.twitter.com or a Twitter smart-phone app. Nonprofit tweeters should think of themselves as reporters during these events.

Customize your avatar. Design a custom avatar to get your special fundraising or awareness campaigns noticed (you can also create a "twibbon" for your campaigns).

Mueller Prost PC is a team of CPAs and business advisors headquartered in St. Louis. From humble beginnings on a ping-pong table in 1983, the corporation has grown into one of the leading CPA and business advisory firms in the area, operating out of two locations with more than 80 staff members. By **Advising with Vision®**, we offer clients new and unique ways to look at their businesses. Our forward-thinking CPAs and advisors stand ready to provide depth of expertise, strategies and resources required to help clients set and achieve their goals at every stage of the business lifecycle. As a member of both the PKF North America and PKF International networks (associations of independent CPA firms), our team has the ability to leverage national and global resources when needed to benefit client engagements.

The firm offers a full range of professional tax, audit, accounting and management advisory services to not-for-profit organizations.

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