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Better Ways ▲ Better Results

A NEWSLETTER FOR NONPROFIT DECISION MAKERS

FALL 2009

Lessons to Learn

Focus on the Fundamentals During Lean Times



board members not to submit expenses for reimbursement. Your supporters want to know you're being a good steward of their resources, particularly in a recession.

Operations – Renegotiate contracts, from telecommunications and printing to hotel rates for traveling employees. In this economy, vendors may be willing to shave a little off rather than lose your business entirely. To save on fundraising costs, ask local businesses if you can piggyback your appeals in their mailings. Look also at consolidating mailings and using your Web site and e-mail to distribute updates, the membership directory and program announcements.

Programs – When it comes down to a choice between scaling back on services or closing down a program entirely, you may be better served by simply limiting eligibility for programs or reducing the number of clients served. You could also look at partnering with universities, corporations and other public entities to maintain current levels of service.

Staff – The conundrum here is that while staff account for a large chunk of budgets, tough times also heighten the demand for services. Don't run so lean that you are ultimately unable to serve your constituents. Instead of lay offs, why not re-deploy staff to other key roles (e.g., fundraising) or share staff with other organizations? Consider temporary hour reductions and furloughs to lower costs while preserving positions. Look at limiting benefits, including 401(k) or 403(b) matches.

When times get tough, nonprofit leaders hunker down and focus on the fundamentals: reducing costs, raising funds and reaching out.

These basics – the “3 Rs” if you will – can help not only sustain your organization during lean times but also help you to continue providing valuable services to your constituencies. And, right now, your services may be needed more than ever.

Reduce Costs

Survival in recessionary times often depends on cost control. Be aware that you don't have to apologize for cutting spending – whether it's sending a newsletter only twice a year or asking

The IRS is Asking - and the Public is Watching

Utilizing its revised Form 990, the IRS is now asking more questions of nonprofits.

Specifically, Form 990 asks about your organization's governance and management practices, including whether you have a written document retention/destruction policy. Of course, your answers are also available to the public.

Certain requirements of the Sarbanes-Oxley Act regarding document retention apply to nonprofits, as well. Specifically, organizations that destroy records with the intent to obstruct a federal investigation are subject to criminal liability.

It's Just Good Practice

With that in mind, tax-exempt organizations are well advised to adopt a document retention policy. It just makes good sense to have a policy for managing the paper and electronic documents that deluge the typical nonprofit.

In particular, organizations with paid employees may find a document retention policy helpful in complying with state and federal employment laws. The Fair Labor Standards Act, for example, requires employers to maintain payroll records for certain periods of time.

Keep It Simple

A document retention policy doesn't have to be complex. A simple, succinct policy lets employees, officers and directors know which documents to retain (and for how long), and guards against improper disposal or destruction. A basic policy should set forth the following:

- Timelines for maintaining documents. This can simply be a list of document categories (financial, fundraising, personnel, contracts, leases, etc.) along with the length of time they should

be retained to comply with state and federal requirements. Detail where each type of document is stored, paying particular attention to whether you are required to retain originals or whether copies will suffice.

- Procedures for preserving electronic data. In today's digital world, a document retention policy must look beyond printed documents to also cover electronic communications such as e-mails and voice mails.
- Guidelines for disposal and destruction. Obviously, there is a housekeeping issue here: Records pile up quickly, making storage costs spiral and individual documents hard to find. Documents that are no longer needed or required by law should be routinely eliminated. But there is also a compliance issue. By using a standard, documented procedure for disposing of records, you can more easily defend against any allegations that materials were purged in a manner other than in the ordinary course of business.
- Categories of documents that warrant special consideration. Two documents that you must retain and make available for public inspection are your original application for exempt status (IRS Form 1023) and your annual

information return (IRS Form 990 or 990 EZ). Form 1023 must be saved permanently, and your Form 990 should be kept for a minimum of seven years.

- A mechanism for halting document destruction. If your organization comes under investigation by a law enforcement agency, your policy should have provisions for suspending routine destruction of documents. It should also detail under what conditions document destruction may resume (typically with the written approval of legal counsel or the Chief Executive Officer).

Sample Document Retention Policies

You don't need to re-invent the wheel. A variety of organizations make sample policies and templates available for use by nonprofits, including this one from the National Council of Nonprofits: <http://www.councilofnonprofits.org/?q=node/294>. Once drafted, your board should review and approve the policy. Include it in your employee/volunteer handbook, where it can be read and acknowledged by all staff and volunteers. ■

Questions about document retention? Our knowledgeable professionals can provide valuable guidance. For more information contact Steve Nofzinger, Senior Tax Manager at 630-545-4548.

File Facts

- Nearly half of stored documents are of no current or future use.
- Some 40 percent of stored data are copies of already-filed documents.
- Nearly 95 percent of stored documents that need to be retrieved are less than three years old.

Raise Funds

Now's the time to focus on proven fundraising channels and methods. Review what's worked for your organization in the past, and do it more aggressively.

Your donors — The mantra during tight times has always been "keep your top donors close." Reach out to existing funders and encourage them to help your organization survive the storm. Assistance could come in the form of in-kind donations, additional funds or introductions to potential donors. This is also the time to reach out to lapsed givers and make the case for their support during these challenging times. Finally, hunt for new prospects by mining deep into your existing relationships (e.g., relatives of current donors, supporters of similar organizations, etc.).

Your board — Your board should be intimately familiar with your finances and any recessionary challenges. Consider asking them to make additional contributions to cover a budget shortfall or to preserve an important program. And make sure the entire board is actively engaged in fundraising. Challenge them to meet with influencers in your community each week to promote your organization and its needs.

Your development committee — If you don't already have one, form a committee to pursue all possible sources of funding, including grants, public funding, service revenue and events. Seat at least one board member on the committee and have that individual report back regularly to the full board.

Your constituents — If you operate a revenue-generating program or service, brainstorm ways to offer it to other clients or groups. Look also at additional revenue-generating services that require minimal start-up costs.

Your funders — Consider asking a funder for more flexibility during the crisis (e.g., easing grant restrictions so that a portion can be allocated to cover general operating costs). Likewise, ensure that your cash flow is not being impacted by slow payments. Every reimbursement voucher sent to a government agency should be accurate and timely. Analyze accounts receivable by age and follow up promptly on unpaid invoices.

Reach Out

Strengthening relationships is key during tough economic times. Consider the example of Barack Obama, who raised millions of dollars during his presidential campaign — often \$10 at a time. He did it in large part by reaching out to people and then following up with regular e-mails.

Your volunteers — Volunteers can be your lifeblood during tough times. Free up resources by using them to cover tasks usually handled by staff. And keep your eye out for talented individuals who are between jobs and eager to put their skills to work.

Your board — Engage and reinvigorate your board. Look for new and meaningful ways to draw on board members who have expertise in law, real estate, finance and marketing.

Your vendors — Consider asking your vendors for their financial support. And offer local businesses opportunities to sponsor your events or sponsor a page on your Web site or publication.

Keep it in Perspective

It's hard not to despair when headlines seem to bring only more bad news. But it's critical to keep your perspective. Charitable giving tends to remain fairly steady during a recession. In fact, bequest designations actually increase during tough economic times.

David Siehoff, Partner-in-Charge, Wolf & Company LLP says, "Perhaps most important, though, is the fact that being forced to weather uncertain times can help an organization ultimately emerge healthier." ■

For more information call Dave Siehoff at 630-545-4503.

Communicating In A Crisis



Clear, open communication is critical in uncertain times. When all of your stakeholders — your employees, board members, funders and constituents — know where the organization stands, they will likely engage more in solutions for survival.

- Create a sense of shared purpose among staff and volunteers. Actively solicit their suggestions on fundraising and money-saving strategies.
- Regularly update supporters on the actions being taken. Make clear how they can be part of the solution (e.g., increased financial support, in-kind donations, etc.).
- Don't dramatize the situation. While you should make a compelling case to donors, a panicky, sky-is-falling message that suggests you're about to fold can hurt your cause. Nobody wants to put money into a sinking ship.
- Finally, communicate honestly with your lenders. It is always a mistake to hide financial difficulties. Lenders are far more open to working with a proactive organization that is open and communicative about its challenges.

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Nonprofit Notes

How Can Cash Reserves Help?

The quick answer is that a cash reserve (sometimes called an “operating reserve”) is just that – cash. Going a little deeper, it is a portion of your net assets that is unrestricted and relatively liquid (i.e., funds that are not permanently or temporarily restricted by donor-imposed stipulations).

This cash reserve is typically built using unrestricted contributions, investment income and/or intentionally budgeting to create a surplus.

An organization’s board of directors usually determines the amount and purpose for cash reserves. For example, it may establish an

operating reserve to continue program services after a long-time corporate donor drops off. Other reserves may be established for future construction or to develop an endowment fund.

What It’s Not

Funds that shouldn’t be considered part of an operating reserve include:

- Endowments and temporarily restricted funds.
- Illiquid fixed assets, such as your buildings and equipment.

Where It Goes

Cash reserves appear on a nonprofit’s statement of financial position (balance sheet) when the board has voted to designate net assets for a

cash reserve. Likewise, “unrestricted net assets” appears as a required line item in the balance sheets of financial statements prepared in accordance with generally accepted accounting principles (GAAP) and on IRS Form 990.

How Much Is Enough?

Determining how much should be in your operating reserve depends on your organization and its operations. A generally accepted benchmark is that reserves should cover three to six months of operating expenses. Nonprofits are generally advised to avoid accumulating more than a year’s worth of expenses in reserves (cash not designated by the board for specific purposes). Such a large nest egg may be viewed skeptically. ■