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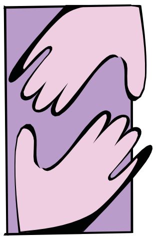

NonProfit

Better Ways ▲ Better Results

A Newsletter For Nonprofit Decision Makers — Winter 2010

WHAT'S INSIDE

TROUBLE TRIGGERS

Avoid Threats to Your Exempt Status

At times, it seems the nonprofit world runs on paperwork. The IRS and any number of state and federal agencies require a seemingly endless stream of forms, reports and returns. Even so, ignoring compliance issues can seriously jeopardize your organization's tax-exempt status. Avoid the following mistakes to stay clear of trouble.

Failure to file Form 990. If your organization has gross annual receipts of more than $25,000, you must file a Form 990 or Form 990-EZ (Short Form) for that year. A public charity with annual receipts of $25,000 or less must file Form 990-N, Electronic Notice (e-Postcard). Private foundations must file Form 990-PF, even if their gross receipts are less than $25,000 for the year. The only organizations not required to file a Form 990 or Form 990-EZ are:

- Churches, synagogues and mosques
- Subsidiary organizations whose parent organization or national headquarters files a Form 990 for the entire organization

Failure to file the required schedules. The new Form 990 now requires additional schedules based on whether your organization has participated in certain types of transactions and in response to questions answered on the main form. For example, Schedule A reports on public charity status and public support. Schedule J covers

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Never Let 'em See You Sweat

Fundraising is an ongoing challenge even in the best of times. Add in the worst recession this country has seen in generations, and it's easy for your fundraising efforts to take on an air of desperation. After all, contributions may be drying up at the very time your organization's services are needed most.

Desperate vs. Compelling

It's critically important to stay "on message" during challenging times. People don't give to agencies they perceive as desperate; they give to agencies they believe are successful in meeting a need that's important to them. Here's an example:

Desperate: "Without your support, we won't be able to house our clients tonight."

Compelling: "With your $100, a family will have a place to sleep tonight and access to telephones and the Internet to continue their job search in the morning."

Communicate to donors in a compelling way that, recession or no recession, your charity's needs continue, is important.

Here, you'll need to sharpen your "emotional hook" — your organization's story. This is what makes donors give to you. And tough times provide the perfect opportunity to refine your story into a compelling case about what your organization does and where donor dollars go.

Ask your board members, your clients and individual funders for their thoughts on what your organization's emotional hook truly is. Then, hone that message razor-sharp!

As you communicate with donors and potential donors, keep these points in mind:

Don't apologize for asking. Not asking — or backing into it timidly — is a sure way to not raise money. At the same time, understand that the recession is probably impacting many of your donors. Being compassionate and understanding about their reduced capacity to give can pay off later, after the economy recovers.

Make the case for good stewardship. Now is the time to tout your fiscal responsibility. Make sure donors know that you are cutting costs where you can, that you have good controls in place, and that you are examining the effectiveness of all your programs.

Look for niche groups. Women are expected to control half of the personal wealth in this country by 2010. Think carefully about potential donors such as these, as well as groups of people who may only be marginally affected by the sour economy.

Use the Internet. Online solicitation costs less, so even smaller donations can have a larger impact. The key? Make online giving convenient — and secure. Make sure your Web site makes a good first impression, and collect e-mail addresses of current donors/prospects so that you can communicate with them online.

Set a challenge. Ask higher-end donors to jump-start fundraising efforts with a challenge or matching grant (a contribution of $100 for every $50 raised, for example). Matching campaigns send a powerful message to other donors that their contributions could actually go much further. It also provides an extra incentive for those working on the campaign to give it their best effort.

Start a monthly giving program. Donors who are already giving you $100 or $1,000 a year are prime candidates for a monthly giving program. Simply give them the option of monthly credit card or checking account debits.

Use care with corporate donors. Corporate donations are the first to fall off when the economy heads

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Don't Give Up on Foundations

Created for the sole purpose of supporting philanthropic causes, foundations must provide funding — regardless of the economy. Foundations are required to annually distribute 5 percent of the fair market value of the foundation's net investment assets or risk an additional excise tax. It's interesting to note that foundations may actually increase their funding in challenging times to make up for decreases in giving from other sources.

Even during this economy, routinely seek out new sources of foundation funding. Challenge yourself to send out queries and grant requests on a regular basis. For a 2009 Foundation Giving Forecast, visit http://foundationcenter.org/focus/economy/forecast.html.

your organization's compensation practices. Schedule C includes lobbying expenditures. Note that Form 990-EZ also requires the use of schedules.

Failure to report "excess benefit transactions." If a public charity believes it provided an unreasonable benefit to a person who is in a position to exercise substantial influence over the organization's affairs, it must report the transaction on Form 990 or Form 990-EZ.

Failure to account for "unrelated business income." Even if you are not required to file a Form 990 or Form 990-EZ, you'll need to file a Form 990-T, Exempt Organization Business Income Tax Return, if your organization has earned $1,000 or more during the year in gross receipts from trade or business unrelated to your charitable purpose. Examples may include a hospital that packages software for commercial sale or an art museum that sells special reproductions that have no relationship to its mission.

Failure to report employment taxes. Like other employers, all public charities that pay wages to employees must pay employment tax, including federal income tax withholding and Social Security and Medicare (FICA) taxes. Employment taxes must be reported on Form 941, Employer's Quarterly Federal Tax Return.

Failure to account for significant changes in your organization. You may also be required to notify the IRS if your organization experiences "material changes in its form, activities, or sources of support." This could range from merging with another organization to changing your mission. If you are unsure about whether a proposed change is consistent with your tax-exempt status, you may obtain a ruling or determination letter from the IRS.

Get Help From the IRS

The IRS has become increasingly proactive in helping nonprofits avoid losing their exempt status.

- A variety of "Life Cycle" tools help guide tax-exempt organizations through federal tax rules and requirements. You'll find these tools on the Charities & Non-Profits section of the IRS Web site (http://www.irs.gov).

- Download the Compliance Guide for 501(c)(3) Tax-Exempt Organizations (http://www.irs.gov/pub/irs-pdf/p4221pc.pdf) to get answers on what federal tax reports and returns must be filed and what records should be kept.

- The IRS also offers a "virtual workshop" on compliance issues at http://stayexempt.org.

Steve Nofzinger, Senior Tax Manager, Wolf & Company LLP, suggests that you take steps to protect your tax-exempt status. "If you're feeling overwhelmed, our accounting professionals can help," says Steve. ■

For more information, call Steve Nofzinger at 630-545-4548.

"Help! We Need More Time"

Forms 990 and 990-EZ must be filed by the fifteenth day of the fifth month after the end of the organization's annual accounting period. But getting an extension is fairly straightforward.

Simply file Form 8868, "Application for Extension of Time To File an Exempt Organization Form," before the due date, and the due date may be extended for three months without you having to show cause. If you can show reasonable cause why the return cannot be filed by the extended due date, you may be eligible for an additional three-month extension (using Form 8868).

Never Let 'em See You Sweat

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south. While it's tempting to go after big corporate gifts rather than lots of smaller individual gifts, in truth, corporate giving is often less reliable. You may be better served focusing on individual donors, who provide more than 80 percent of charitable donations anyway. But keep your corporate contacts strong. It's hard to get back on the corporate charitable list once you're dropped. Stay visible and keep cultivating your contacts within the company.

Put the "big guys" to work. Encourage your board members to become true team members by developing relationships and actively participating in fundraising efforts. Your president and executive director need to set the tone and clearly communicate organizational vision and goals during these uncertain times.

Team up. Maximize fundraising resources by partnering with other organizations. These partnerships can be in the form of one-time fundraising campaigns or ongoing relationships. Even nonprofit organizations with differing missions can pool administrative resources. Just be sure to clearly define the scope of the relationship, including the resources that will be placed into the joint enterprise, the expected outcomes and the anticipated length of the relationship.

Keep the Fires Burning

Ultimately, uncertain times demand clear communication. Make the scope of your conversation with prospective donors much larger than our troubled economic times. Challenge them to seize the opportunity to invest in a solution. Communicate this message with enthusiasm and optimism about your cause to ensure your success. ■

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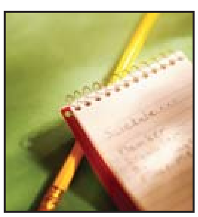

Nonprofit Notes

Political Campaign Intervention by 501(c)(3)Organizations

A charitable organization that participates or intervenes in any political campaign on behalf of, or in opposition to, any candidate for public office is considered an "action" organization and loses its tax-exempt status.

The IRS guidance addresses organizations' participation in voter eduction, voter registration, and get-out-the-vote drives, as well as rules for hosting candidate appearances without jeopardizing their tax-exempt status.

Taking positions on issues of public policy is allowed, but the organization must not favor or oppose a particular candidate.

An organization's leaders are not restricted to their free expression on political matters if they speak for themselves as individuals, but such comments cannot be made at official organization functions or in official organization publications.

Certain business activities that favor a political party or organization can also constitute participation or intervention in a political campaign.

In addition, information posted on a charitable organization's website will be treated in the same manner as oral statements, printed materials or broadcasts in determining whether or not the information is nonpartisan. ■

For more information call Steve Nofzinger at 630-545-4548.

If you would like to receive future newsletters electronically, please email your request to gina.riberto@wolfco-fs.com