

# nonprofit agendas

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News for Nonprofits

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# Accountability is critical for today's nonprofits

In recent years, the issue of accountability for any type of organization has garnered a lot of attention. Perhaps most notably, both public and private for-profit companies have been struggling to adapt to either the tenets or the effects of the Sarbanes-Oxley Act of 2002.

Although nonprofits in most states don't have a specific piece of legislation dictating their standards of accountability, there can be no overstating the importance of operating your organization in an accountable manner. Simply put, accountability is a critical issue for today's not-for-profits.

## 4 AREAS OF ACCOUNTABILITY

A basic definition of accountability is fairly obvious: To conduct business transparently and ethically, always standing at the ready to provide the public with a thorough explanation of any action taken by

your nonprofit. Generally, accountability takes place in four areas:

**1. Finances.** You should conduct regular, board-approved audits that are attested to by the executive director and principal financial manager. If your nonprofit doesn't have an audit or finance committee, your board must review internal financials and compare them to the budget quarterly. In addition, your board should establish and regularly assess clear measures for financial performance that are open to public review. You must also follow any other common financial practices that apply to your activity area.

**2. Governance.** There can be no accountability without governance. That is, you must set in place the means and measures to keep your organization in compliance with all applicable laws, rules and guiding principles. More specifically, author and

nonprofit expert Steven Ott describes a nonprofit's governance as "a product of its purposes, people, resources, contracts, clients, boundaries, community coalitions and networks, and actions as prescribed (or prohibited) in its articles of incorporation and bylaws, state laws and codes, and the IRS codes and rules."

**3. Disclosure practices.** You need to comply with all legally required reporting procedures. For example, any concerns or complaints related to accounting, internal accounting controls or auditing should be reported to the appropriate personnel (management or HR). Also, evidence of activity that may constitute fraud or violate federal or state law should be communicated to the appropriate personnel or your organization's help line, which allows employees to report information confidentially.



### 3 tools for disseminating information to the public

Communication is a big part of accountability. You need to convey information about your organization in general and the specific programs it operates in a manner that inspires and builds trust in your not-for-profit. And the public should be able to easily access information, including your:

**1. Annual report.** It should explain your mission, activities and results for the preceding year. Your report also needs to give financial data for the year and list board members, management staff and other key employees.

**2. IRS Form 990.** You should make available Form 990s for the previous three years. Also include clear statements of program service accomplishments in Part III.

**3. IRS Form 1023, Application for Recognition of Exemption Under Section 501(c)(3).** It will provide the public with key details about your tax status application.

Offer interested parties multiple ways to obtain one or more of these documents. For instance, on your Web site, post a mailing address, an e-mail address and a toll-free phone number.



**4. Programs.** As you carry out your initiatives, you must do so fairly and in the best interests of your constituents and community. Your status as a non-profit means you're obliged to use your resources only toward your mission and to benefit the community that you serve.

*You should conduct regular, board-approved audits that are attested to by the executive director and principal financial manager.*

#### THE ROLE OF THE BOARD

You've probably heard the expression "the buck stops here." Well, when it comes to accountability, the buck unquestionably stops with your board. As such, it's important that your board operate as soundly as possible.

For starters, be sure your board is focused on carrying out your organization's mission — and doesn't become mired in process-oriented details best handled at the staff or committee level.

Also, your board, not the executive director or staff, should set your not-for-profit's agenda. Meetings should be structured around annually established strategic goals, and they shouldn't be used for show-and-tell sessions or endless reports. The board is there to provide leadership, not act as an audience.

Last, at least annually, your board needs to examine its effectiveness as a whole. Is your nonprofit using its resources wisely, or do internal or external factors require changes in board or committee structure? If so, don't be afraid to make those changes.

#### BEYOND DISCUSSION

Not-for-profits that truly embrace accountability go beyond occasionally discussing the subject. To inspire trust and nurture loyalty among your key stakeholders, you need to establish measures to ensure accountability and regularly review these measures to make sure they're effective. \*

# 5 ways to increase your organization's income

It's the same old story pestering many nonprofits: A pledge is made and for any number of reasons — from a donor's bad intentions to economic reversals to a volunteer's lack of follow-through — the money is never received. Because donations are such a vital source of income for most not-for-profits, this can be devastating. Fortunately, you can increase your nonprofit's income and help keep your organization financially stable by implementing some new and traditional approaches. Here are five to get you started.

## 1. PROVIDE SERVICES AND PROGRAMS RELATED TO YOUR MISSION

A commonly accepted way to generate income is to offer services and programs for a nominal fee. These might include hosting speakers, classes or exhibits that are related to your organization's mission and tax-exempt purpose. You can raise additional funds by selling exhibited items or having a program with advertising.

Also, evaluate those programs you currently offer. Are they as successful as they could be? Could they be modified to attract new people? Are you publicizing them well?

## 2. PRODUCE SPECIAL EVENTS

Although it takes a great deal of time and effort to plan, a creative and well-organized special event can be incredibly successful — particularly from a fund-raising point of view — because it can draw your usual donors and prospects.



Plus, special events, such as walks, tournaments, dinners, auctions and cook-offs, can be memorable and help potential donors and the media learn about your organization's "softer" side.

## 3. OFFER MEMBERSHIPS

Some organizations may charge membership fees. Memberships typically work well for nonprofits that provide a service. In return for the fee, members get privileges they wouldn't have received if they were simply donors, such as:

- \* Discounts on your programs or services,
- \* Discounts on products your organization sells,
- \* Invitations to special events, and
- \* Special opportunities, such as members-only programming or facility access.



In addition to providing income, memberships can benefit your nonprofit in other important ways. For example, people don't always discuss the organizations to which they donate, but they may be more likely to publicize organizations to which they belong.

## 4. EARN INCOME ON INVESTMENTS

There are many options when it comes to investing your nonprofit's money, so you'll want to look at factors such as requirements for liquidity, risk tolerance, historical use of funds and possible conflicts of interest.

For short-term investments, a money market or short-term bond mutual fund can offer higher returns than a savings account while still providing a fair amount of liquidity. If liquidity isn't as important, you might consider a long-term investment, such as real estate or longer-term bonds. Keep in mind that all investments have some risk involved, so it's essential to monitor your risk diversification and the tax consequences, if any, of earnings.

## 5. COLLABORATE WITH OTHER ORGANIZATIONS

Working together with other organizations can help you earn — and save — money. For instance, you can rent or share office space with a nonprofit that has a similar or related mission. It can also be beneficial to exchange or share staff or service providers or to organize a joint event, which will bring new patrons to both of your organizations.

As the saying goes, two heads are better than one. Partnering with another nonprofit brings additional

skills and experiences to the table that may help each organization generate new ideas and resolve issues.

## LET YOUR IMAGINATION RUN WILD

The central elements of successfully implementing most of these ideas are creativity, promotion and organization. Even the most original event can fail if it's poorly publicized or organized. And, as with any endeavor, it's essential that the individuals involved be dedicated. With time and effort, the act of soliciting donors will be just one part of your nonprofit's fund-raising strategy. \*

# New auditing standards address internal controls

Regular financial audits are a must for every nonprofit. This is true for a number of reasons, not the least of which is upholding the accountability of your organization. (See "Accountability is critical for today's nonprofits" on page 2.) Well, some audit standards have changed.

For example, last year, the Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. It addresses just how auditors should communicate certain issues related to internal controls over financial reporting that may be identified during a financial statement audit.

## DEFINING DEFICIENCIES

SAS 112 focuses on "control deficiencies" — that is, shortcomings in your internal financial controls. More specifically, it breaks down control deficiencies into two primary types:

**1. Significant deficiency.** This is one or more control deficiencies that hinder your ability to "initiate, authorize, record, process, or report

financial data reliably." In other words, these deficiencies prevent you from generating financial data under generally accepted accounting principles to the extent that there's "more than a remote likelihood" that your financial statements will contain a *more-than-inconsequential* misstatement that won't be prevented or detected.

**2. Material weakness.** This is one or more significant deficiencies that make it more than likely that your financial statements will contain a *material* misstatement that won't be prevented or detected.

## JUDGING THE SERIOUSNESS

Along with defining control deficiencies, SAS 112 provides guidance to auditors on how they can judge the seriousness of a deficiency should it show up during an audit. (And it makes clear that the controls in question are not restricted to the general ledger but include any related to the preparation of the financial statements.)



To this end, SAS 112 gives some examples of indicators of control deficiencies. These include situations when an auditor:

- \* Finds any restatement of previously issued financial statements that was issued to reflect the correction of a material misstatement,
- \* Identifies a material misstatement that went previously unidentified by the entity's internal controls,
- \* Learns that management (or those charged with governance) has failed to gauge the effect of a previously revealed significant deficiency and to either fix the problem or deem that it will go unfixed,
- \* Discovers a lack of segregation of duties with a significant account or process, or
- \* Detects no or inadequate controls in place to protect a given asset.

Bear in mind that, initially, a control deficiency is presumably a material weakness, but an auditor

may discover further information that warrants downgrading it to a significant or inconsequential deficiency.

Also note that SAS 112 doesn't mandate auditors to specifically look for control deficiencies. Instead, it requires auditors to evaluate such deficiencies once identified. If an auditor does find a control deficiency, he or she must notify management (or those charged with governance) of any significant deficiencies and material weaknesses — in writing — no more than 60 days after issuing the audit report. If there are mitigating controls, deficiencies may not need to be reported.

### DISCUSSING THE CHANGES

SAS 112 is effective for periods ending on or after Dec. 15, 2006, and applies whenever an auditor expresses an opinion on financial statements — including a disclaimer of opinion. If you've yet to do so, discuss with your auditor just how the changes wrought by SAS 112 could affect your nonprofit's financial statements. \*

## Using technology to enhance your nonprofit

Nonprofits have always struggled to get their services out to their communities efficiently and cost-effectively. Today's technological tools can be a tremendous help in this endeavor. Let's look at some key technology areas and how they can help you increase your organization's reach:

**E-mail and the Internet.** E-mail allows nonprofits to communicate with employees, volunteers, board members and constituents more quickly. For example, communicating with your board through e-mail can permit quicker decision-making. Some boards have even started using e-mail to vote on issues, which has the added benefit of providing better record keeping.

Technologically savvy organizations send electronic newsletters to their donor base, use blogs to keep the public updated and have Web sites that offer the ability to make donations online.

**Software.** A customized donor database program used to be just a dream for many nonprofits, but now with more affordable options available it can be a reality. The same is true for grant tracking (both from the giver and receiver), accounting and other software programs. These new technology options are likely to save you time and money.

**Electronic records.** Some nonprofits, especially those in the health care field, use electronic records for clients. Sharing vital information in this way not only is easier, but also helps to prevent errors. And electronic record keeping saves time that can be better used to attend to other matters.

If you want to continue growing and reaching more donors and individuals, you need to review your current technology and consider what changes can benefit your organization. By taking advantage of technological advances, you can be more efficient and productive — and, most important, reach even more people than before.

# NEWS FOR NONPROFITS

## ARE YOU REQUIRED TO E-FILE?

Tax exempt organizations are required to electronically file their returns with the IRS if they have \$10 million or more in assets and file at least 250 returns in a calendar year, including income, excise, employment and information tax returns. Previously, this requirement applied to organizations with \$100 million or more in assets.



Failure to file electronically is deemed a failure to file a return, even if you submit a paper return. The penalty for failure to file is \$100 for each day the failure continues, up to a maximum of \$50,000 per return, beginning on the due date of the return. Plus, the person responsible for the nonfiling can be charged a penalty of \$10 per day up to a maximum of \$5,000.

Nonprofits can request waivers from this process if they can't meet the electronic filing requirements due to technology constraints or if compliance would result in an undue financial burden. Keep in mind, there are instances when organizations shouldn't file electronically. They include short-year/short-period, amended and final returns; and returns with a name change. \*

## WHAT THE IRS IS FOCUSING ON

Last November, the IRS Exempt Organizations division issued *FY 2007 Exempt Organizations Implementing Guidelines*. This document outlines the IRS's priorities and new projects for the year, which include:

- \* Legislation implementation — the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) and the Pension Protection Act of 2006 (PPA),
- \* Gaming,
- \* Employment taxes,
- \* The telephone excise tax refund,
- \* Community foundations, and

- \* Unrelated business income tax (UBIT) for colleges and universities.

The IRS also plans to give additional guidance in certain areas, such as political activities, and provide advance and definitive rulings for publicly supported organizations and accommodation parties in tax shelter transactions (as outlined in TIPRA). It will also discuss Section 509(a)(3) supporting organizations. \*

## DONATIONS AND DEMAND HAVE INCREASED

Throughout the country, contributions increased for the first nine months of 2006 compared to the same time period the year before, according to the *Fifth Annual GuideStar Nonprofit Economic Survey*, which surveyed more than 1,350 not-for-profits. Half of those surveyed reported contributions had increased and 27% said they had stayed the same. Also, 72% of respondents said the demand for services provided by their organization had increased. \*



## ONE TIME ONLY: TELEPHONE EXCISE TAX REFUND

A one-time refund of the telephone excise tax will be available to individuals and tax-exempt organizations on their 2006 tax returns. Even organizations that do not normally file a return, such as churches, can file for the refund. To receive it, you must file Form 990-T — even if you normally don't file that return — and Form 8913.

There are two ways to determine your refund: 1) Calculate the actual amount of the long-distance telephone excise tax paid between Feb. 24, 2003, and July 31, 2006, or 2) Use the IRS's formula. You would file an amended return only if you already filed a 990-T. \*



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Our not-for-profit specialists understand that your organization is unique and will work with you to uncover hidden problems, anticipate future needs and spot new opportunities to increase your success.

We truly care about our clients' mission and success—perhaps that's why many of them have been partnering with us 10, 20 and even 30 years. We believe we can make a positive difference in your organization's financial life, and we hope you will give us an opportunity to serve you.

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