

BY DESIGN:

Best Practices for Organization Governance and Operations



By Design was created by NeighborImpact after August 2022 listening sessions during which NeighborImpact partners said they needed more information on the management and operation of a nonprofit. NeighborImpact needs reliable partners to leverage its work and resources, and investing in the operational strength and capacity of our partners help us do more. We are proud to bring you the inaugural edition of our newsletter, which will be distributed quarterly going forward.

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- ✓ Who should fill out and review your 990?
- ✓ How to make your audit a powerful communication tool

About the Author



Kay Sohl has provided training and consultation for Executive Directors, CFOs, and Boards of Directors of over 8,500 nonprofit organizations throughout the United States. Kay focuses her work on rethinking nonprofit strategies for financial sustainability, Board financial oversight, compliance

Good Publicity Free! – Your 990 and Audited Financials

The good news about your nonprofit's good works could be appearing now on a huge, national website! Potential donors, staff, and volunteers could be checking your organization out right this minute. Do you know what they are seeing?

Your nonprofit may be spending hours and dollars trying to communicate with current and potential donors, recruit new volunteers, and attract great staff to apply for positions with your organization. But you may be missing one of the most powerful communication tools that is available FREE to your nonprofit. Make your IRS Form 990 and your audit tell your most powerful story and—unlike news stories or social media comments—*You are in total control of the message.*

Want to know if you are getting the most out of these two key tools? Start by taking a look at your Form 990 or 990EZ, the report your nonprofit files with the IRS every year. The IRS posts all the 990s and 990EZs to

with federal funds management requirements, and the challenges of nonprofit accounting and financial reporting. Kay founded and lead TACS, now known as the Nonprofit Association of Oregon. She is a licensed CPA, a frequent consultant and presenter and has provided training to more than 8,500 nonprofit organizations.

She is co-author of the Oregon Nonprofit Corporation Handbook. The 800+ page book is a critical resource for every nonprofit Executive Director. This publication provides expert information on nonprofit legal, financial, tax exemption, and management issues in everyday language and helps explain Oregon State nonprofit law (which was substantially revised and updated January 1, 2020) as well as IRS rules and processes, and accounting and financial reporting requirements that have the greatest impact on nonprofit corporations.

the internet for all to find using the charities search directory <https://apps.irs.gov/app/eos/>.

Wondering why anyone would ever go to an IRS website to get info about your group when your website is right here waiting for them to look? Probably because *a quick look at your 990 can yield more info faster than combing through your website and brochures or asking around* and provide assurance that this is the straight story as told to the IRS. Readers can—

- Be sure you really are a charity instantly—rather than waiting for you to send them a copy of your IRS determination letter
- Find out what your organization actually does—and how much money you spend doing it
- Learn where your funding comes from—is it government, foundations, individuals, selling services or products?
- Scope out how much you pay your Executive Director and whether you have a number of highly paid staff
- Be sure you have an audit or review done by an independent accountant
- Deal with their concerns that you might spend too much on fund raising and management and see how much of your income actually goes to provide services or achieve your mission

All of these are great questions for donors or potential donors. But they are not alone in getting to know your organization through your 990. Job applicants, especially those looking at your Executive Director, fund raising and other leadership positions check out 990s to get a sense of how sustainable your organization is—hoping to see that you'll be around for the long term.

Volunteers find the nonprofits they may want to volunteer with in many ways—often by word of mouth or literally by walking or driving by.

Many prospective volunteers have learned that a quick way to understand what a nonprofit does is to look at the 990 <https://www.irs.gov/pub/irs-pdf/f990.pdf>, especially page 2 where a concise description of the work and accomplishments of multiple programs pops up, along with information about how much money is spent on the program, giving them a quick way to spot larger and smaller portions of your work.

Potential Board members may find just the info they've been looking for on your 990. In addition to all the basics about mission, programs, and money, they'll take a look at the governance info on page 6 to get a sense of how your board operates and who is currently serving. With one click, they'll learn—

- How many board members you have and who they are?
- Whether you have a conflict-of-interest policy and whether you've encountered conflict of interest situations
- Whether your organization has been the victim of significant fraud
- How the board sets the executive director's compensation
- Whether you keep minutes of your board and committee meetings
- Whether you have a whistleblower policy
- Whether your organization engages in lobbying or political activity

Form 990 is an actual gold mine

of information, but the shorter, easier to complete Form 990 EZ <https://www.irs.gov/pub/irs-pdf/f990ez.pdf> that can be used by smaller nonprofits provides much of the same information. The usefulness of either the 990 or 990EZ for telling your story to donors, volunteers, potential staff, and board members really depends on the care you use in filling out the form.

"Most nonprofit leaders know that many potential donors have misguided ideas about organizations spending too much on management."

Unfortunately, many nonprofits look at the 990/990EZ and think YIKES! – taxes, IRS . . . let the accountant do it! Probably not a great idea unless you have one of the unusual accountants who is a gifted with words as well as numbers. Many accountants don't "get" the communication value of the 990 and want to avoid oversharing in any communication with the IRS. They may copy over out-of-date mission statements and descriptions of programs in boring, legalistic language.

Accountants may also take a very broad view of what expenses should be described as Management and General on the Statement of Functional Expense (page 10 of the 2021 990). While the instructions allow including a variety of overhead costs to be included this category along with true management expenses, most nonprofit leaders know that many potential donors have misguided ideas about organizations spending too much on management. Many of these misperceptions started with various charity rating services encouraging donors to look for nonprofits with the lowest percentage of total expenses devoted to "management" as a sign of their dedication or lack of dedication to their mission. While most rating services have stepped back and acknowledged that nonprofits need to invest in sound management and adequate infrastructure, the more modern approach has not reached many donors. Consequently, including a lot of non-management costs in a column headed Management and General will leave most donors with the impression that you have high management costs.

"Your executive director and board members need to read the form 990 and make sure it tells your story accurately."

There's a simple solution to the problem of the unaware accountant. Your executive director and board members need to read the form 990 and make sure it tells your story accurately before sending it into the IRS. Even better, friend or neighbor who doesn't know your organization well to read the draft 990 and tell you what your organization does and how it spends its money. If the reader is confused or unenthused about your work, it's time for a rewrite.

Remember, the 990 or 990EZ is your report—so you have ultimate control over how your mission, activities, and expenditures are described. Once you have your 990 ready to tell your story, you can use it to provide an express path to understanding your work by posting it, along with your audit, on your website.

Your Audit or Review is One More Great Opportunity

Your nonprofit's annual audit or review provides another great opportunity to tell your story to donors, as well as potential staff, board members, and volunteers. Start checking the story-telling value of your audit or review report by looking at the Notes to Financial Statements that follow the actual financial statement pages. The first note describes your

organization, giving both the basics of its legal status and a short description of your mission and activities. Get your best writer to bring that description up to date with vivid language and a compelling explanation of why your organization was created and what you see as its primary purpose for continuing.

Below that first description, you'll usually see short descriptions of your major programs. Make sure your program names describe what the programs do rather using funding source jargon names for them, especially if your funding sources use acronyms. Once you're satisfied with these program descriptions, look at the Statement of Functional Expenses which presents the expenses incurred in your various programs in columns. Make sure the column headings match the ones used in the Notes and are not just an alphabet soup of acronyms.

You can also use the Notes to Financial Statements to highlight financial achievements or explain unusual challenges during the year—things like a successful capital campaign to rehab your facilities or an unusual drop in revenue or expanded demand for your services due to COVID.

One more great audit-related opportunity! Share the good news about your latest clean audit with your board, donors, volunteers, and staff and use the occasion to celebrate your strong financial health and your progress toward achieving your mission and ensuring your sustainability.

About NeighborImpact: NeighborImpact is a private non-profit governed by a board of directors drawn from across the community. Since 1985, NeighborImpact has led the region in developing solutions and bringing resources to Crook, Deschutes and Jefferson counties and the Confederated Tribes of Warm Springs. We help meet the basic needs of Central Oregonians, build economic security and create a community where everyone thrives. To learn more about NeighborImpact please visit www.neighborimpact.org.

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