

# Profitable **Solutions** *for* **Nonprofits**

Summer 2013

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# Board meetings: Time to go virtual?

**R**egularly scheduled board meetings are a must, but not every meeting has to be conducted in person. Periodic virtual board meetings — ranging from conference calls to videoconferencing — can offer significant benefits for both organizations and their board members.

## MAKING ATTENDANCE EASIER

As anyone involved in nonprofit management knows, it can be difficult to always secure full board meeting attendance. Board members tend to be busy people and may often travel, making in-person attendance at every meeting unlikely. Virtual meetings might allow these members to attend meetings they otherwise couldn't, giving them the chance to interact and make valuable contributions. Also, required quorums usually become easier to meet!

Virtual attendance also can make board participation more appealing to *potential* candidates. Knowing they won't be expected to show up at every meeting may make busy candidates more likely to commit their time. Virtual meetings also can help prevent board member "burnout" by making the time they spend more focused and meaningful.

The advantages to the organization of committed, active board members are obvious. And some boards with members around the country might benefit from reduced travel and meal reimbursement costs.

## FACING CHALLENGES

Of course, effective virtual meetings aren't without obstacles. Members can't always read each other's facial expressions and body language as easily as they could in person, potentially leading to misunderstandings or conflicts. The chair can find it difficult

to shepherd discussion and debate, especially with larger boards. And each participant needs to hear and be heard clearly throughout the meeting.

Confidentiality also is a concern. You must be able to trust that the board members are alone in their remote locations, with no outsiders privy to the discussions. Members in remote locations are more vulnerable to distractions, as well.

## TAKING STEPS TO SUCCESS

Virtual board meetings require extensive preparation, particularly for the inaugural meeting. And being an effective presenter at a virtual meeting requires on-point training. So don't spring a virtual meeting on board members without first conducting and sharing research, discussing the implications of such a change at an in-person meeting, and getting the board, well, on board.

Recognize, too, that certain issues are more suitable to virtual discussion than others. Virtual meetings generally work best for straightforward discussions with no controversy — for example, updates from program or development staff or the formal approval of a policy or budget discussed in detail at an earlier meeting. They also may prove useful for relatively brief meetings needed to obtain board approval for



an urgent action. Virtual meetings are inadvisable for complicated issues, but with the proper technology work well for issues that involve the use of visual aids such as PowerPoint® presentations.

As with any leadership meeting, it's up to your nonprofit's staff to organize, provide the necessary equipment and prepare the board for a virtual event. Among other things, staff should:

- \* Send board members any supporting materials well in advance of the meeting and consider making them available online during the event (whether via e-mail or some type of secure Web portal),
- \* Provide the appropriate training to any speakers, and ask board members to check in several minutes

before the scheduled start to avoid interruptions once the meeting has begun, and

- \* Take time zones into account when scheduling the start time.

Perhaps the most critical step is for everyone to become familiar with the relevant technology. Test the system ahead of time to ensure it works as needed and establish backup plans in the event of technological failures.

### **DON'T FORGET THE LAW**

To avoid getting tripped up by legal problems, check applicable state laws for nonprofit board meetings. Your state, for instance, might allow teleconferencing but not videoconferencing. And amend your bylaws to permit virtual meetings *before* holding such a meeting. \*

## *The investment manager*

# Finding the right fish in the sea

**S**ay that your nonprofit's investment portfolio has recently grown in size and complexity due to a new endowment. You seriously doubt that your staff has the time or expertise to wisely invest and monitor these funds. Moreover, you're relying on proceeds from the investments to finance your organization's latest program.

This is probably the time to hire an investment advisor to assist with your not-for-profit's investment activities. But how do you find the best person to make prudent investments while meeting your investment goals?

### **WHERE TO START**

Finding the right investment consultant or manager for your organization starts with identifying a pool of qualified candidates with proven track records and requesting detailed proposals on how they'd manage

your investments. Experience working with nonprofit endowments is the key.

Ask for referrals from local private foundations (possibly ones that have funded you in the past) or other area nonprofits. Board members may know investment managers they can recommend, but make sure that the individuals you consider have the right experience and qualifications.

### **HOW TO COMPENSATE THE INVESTMENT MANAGER**

Trust is important in all business transactions. When the transactions involve your not-for-profit's endowments, trust becomes critical. To help you select an investment manager who fits the bill, consider whether you'd wholeheartedly trust this person to handle your personal life savings.



Committee members should ask candidates to outline in their proposal how they'll be compensated for their services. Generally, investment managers charge clients based on one (or a combination) of three structures:

1. Fees or commissions on trades,
2. A percentage of the asset values they're managing, or
3. An hourly rate.

Many nonprofits insist that their investment manager's compensation be based on asset value or hours, rather than commission. Trade commission structures can give investment managers an incentive to make trades — even when they're not in the best interests of the nonprofit.

After reviewing the candidates' proposals and checking their references, allow search committee members to talk to other nonprofit leaders to gauge their satisfaction level with your short list. Then select two or three people to interview.

### WHAT TO ASK THE CANDIDATES

Members of your investment or finance committee should interview manager candidates carefully. They should look for someone who closely follows market movements and trends, has a thorough understanding of different types of investments, and is capable of

creating and managing a balanced portfolio that can grow without incurring excessive risk.

Understanding the candidates' investment process, along with their long-term results, also is essential. Other desirable qualities include experience assisting investment committees in drafting and changing investment policies and an ability to clearly explain the processes and considerations behind their investment decisions.

To get at some of these issues, committee members might ask candidates their advice for an organization that's more (or less) risk averse than the traditional nonprofit. Or based on what they know of your organization, what changes to the current investment strategy might they propose?

As they answer such questions, note whether the candidates express empathy toward the kinds of problems facing your organization and suggest investment solutions specific to your nonprofit. Also ask for examples of the reporting they'll provide to your investment committee or board.

*Ask candidates to outline in their proposal how they'll be compensated for their services.*

Finally, ensure candidates have the time to properly manage your investments. How many hours per month do they anticipate spending on your account? Will they be able to attend off-hour meetings with your nonprofit's investment committee if it becomes necessary?

### AN IMPORTANT DECISION

Unless you're lucky enough to have the right kind of expertise in-house, consider hiring an advisor to manage your investments. This is especially true if you depend on your endowments to generate monthly revenue. Select your investment manager carefully — your bottom line could depend on your choice. \*

# What to expect when the IRS comes knocking

The notice sends shivers down your spine — the IRS has called or written to inform you that your organization has been selected for an audit. Now what? Understanding the nuts and bolts of IRS reviews can help reduce your risk of running into trouble.

## TYPES OF IRS REVIEWS

The IRS conducts three types of reviews of nonprofits:

**1. Field audit.** If your initial contact letter schedules an agent to visit your premises, the IRS is conducting a field, or in-person, examination. Field audits are done at an organization's location, the organization's representative's office or an area IRS office. It usually takes place where the nonprofit's books and records are located.

Field audits fall into two categories. A *general program exam* usually is conducted by a single IRS agent. A *team examination program audit* focuses on large, complex organizations and may involve a team of examiners.

**2. Office/correspondence audit.** If the initial letter asks you to deliver documents to an IRS office by mail, you are undergoing a correspondence audit. An agent generally conducts the audit using letters and phone calls to work with the organization's officers or a representative.

But a correspondence audit can expand to become a field audit if the issues grow more complex or the not-for-profit doesn't respond. Both correspondence and field audits can expand to include prior and subsequent tax years.

**3. Nonaudit.** The contact letter might indicate that the IRS is conducting a *compliance check*, which isn't an audit but may include a checklist with specific questions. Or the check may ask about information and

forms that your nonprofit is required to file or maintain, such as Forms 990, W-2 or W-4.

Compliance checks are an accountability tool, like audits, but are simpler and less burdensome and don't directly determine a tax liability for any particular period. They can, however, lead to an audit.

## SELECTION OF ORGANIZATIONS

Nonprofits are chosen for reviews based on several methods, including:

- ★ IRS examination initiatives and projects,
- ★ Complaints about potential noncompliance with the tax law,
- ★ Risk modeling from the revised Form 990,



- \* Related examinations of other taxpayers, such as business partners, clients or vendors, whose returns were selected for audit,
- \* Document matching — when payor records, such as Forms W-2 or 1099, don't match the information reported, and
- \* Certain claims for refund or requests for abatement that require further review.

Form 990 plays a strong role in the selection process. In its *FY 2012 Annual Report & FY 2013 Workplan*, the IRS delivered this “bottom-line message” to nonprofits: “The IRS uses the Form 990 responses to select returns for examination, so a complete and accurate return is in your best interest.”

### GENERAL PROCESS

An audit begins with the initial contact and continues until audit findings are discussed in a closing conference (in person or by phone) and a closing letter is issued. Both the conference and the letter will explain your appeal rights.

A compliance check also starts with the initial contact letter, and the IRS may contact your organization again

if it needs more information or you don't respond. The agency typically issues a closing letter at the end of a compliance check.

*An audit begins with the initial contact and continues until audit findings are discussed in a closing conference and a closing letter is issued.*

During a field audit, the agent will tour your office and interview an officer or representative. For a correspondence audit or compliance check, IRS personnel will review requested items submitted via mail and follow up as needed. They may request additional information.

### DON'T GO IT ALONE

Worst-case audit findings include adjustments to tax liability or tax-exempt status. If you get a call or letter from the IRS, contact your CPA immediately. \*

## WHAT DOES THE IRS REVIEW?

The scope of an IRS review depends on the type. An audit may cover the following issues:

- Whether the organization filed all returns and forms as required by law on time and whether they're complete and accurate,
- Whether the organization's activities were consistent with its tax-exempt purpose,
- Whether any tax liabilities (for example, employment taxes or unrelated business income tax) were properly paid, and
- Whether the organization complied with disclosure requirements for applications for exemption, Form 990 returns, and fundraising solicitations and events.

To that end, the IRS will review annual returns for the tax year under audit, as well as prior and subsequent tax years. It will also look at employment tax returns, Form 1099 information returns and documents related to private foundation excise taxes, intermediate sanctions excise taxes and information returns.

A compliance check is made to determine whether an organization is adhering to recordkeeping and information reporting requirements. This is usually related to a specific issue — employment status, for example — and whether its activities are consistent with its tax-exempt purpose.

The IRS provides a listing of records it's likely to want to see. From [irs.gov](http://irs.gov), type “to conduct a quality audit” in the search box to reach the link titled “Charity and Nonprofit Audits: Exempt Organizations Audit.”

# Newsbits

## LACK OF CAPITAL HINDERS EXPANSION

A new study conducted by the Social Impact Exchange and Veris Consulting, *The State of Scaling Social Impact: Results of a National Study of Nonprofits*, reports on how nonprofits view scaling (growing programs to a larger scale). It also summarizes their motivations and readiness to grow, the strategies they're deploying to achieve scaled impact and the challenges they face going forward.

More than 400 U.S. nonprofits participated, with 75% reporting that they are currently scaling and another 22% intending to expand their organizations or initiatives. Nearly all of the participants (92%) believe that scaling is one of the most important activities to address the social problems they're working to solve. While 79% say they're motivated to expand to increase the number of people they serve, 58% are motivated to facilitate systemic change.

According to the authors, the study shows the need to build an efficient capital market system to spread nonprofit solutions. It also points to the need for impact measurement that will allow organizations to expand only those programs with proven results. \*

## CONGRESS URGED TO "LIBERATE" IRS DATA ON NONPROFIT SECTOR

A report from the Aspen Institute encourages Congress to require the IRS to make Form 990 data "open" — available to all free of charge in a standard format, published without proprietary conditions and available online as a bulk download. To do so, Congress would need to require nonprofits to file their forms electronically.

Forms 990 are currently released only as individual image files. According to the report, *Information for Impact: Liberating Nonprofit Sector Data*, this format

is useful only for reading about a single organization at a time. The institute is requesting comprehensive and computable data that can be openly aggregated, searched, checked and analyzed.

The institute has recommended a two-track strategy. To achieve a longer-term goal of legislation that requires electronic filing to create open 990 data, the institute suggests a shorter-term strategy of developing a third-party platform that can demonstrate more immediate benefits. \*

## GENERATING REVENUE WITH A NEW APP

Tab for a Cause, an application for Chrome and Firefox Web browsers, automatically donates fractions of a cent to charity each time someone opens a new tab. The app replaces the blank pages that appear when a user opens new tabs with pages that display information about several causes along with advertisements.

Whenever a user opens a tab and views the ads, Tab for a Cause gets money from the advertisers. The proceeds are donated to the charity of the user's choice. More information is available at [tabforacause.org](http://tabforacause.org). \*

