Nonprofit Observer

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Making sure your board reflects your constituency

When nonprofits first form, they usually welcome as board members anyone who has the time and interest. But as organizations grow in size, revenue and complexity, the makeup of their boards generally must change. For example, they may want members with legal or financial expertise or to include major donors and business leaders.

One critical consideration for an evolving board is diversity. Nonprofit boards need to reflect — or at least contain members who represent — the people and interests they serve, as well as their local communities. This may require recruiting new members from diverse racial, economic, religious and other backgrounds. For many nonprofits, this can be a challenge.

What's the need?

The desirability of greater board diversity may seem like a no-brainer if, for example, a nonprofit that provides services to the disabled has no board members with a physical disability. The same would be true for a nonprofit women's health clinic that's overseen exclusively by men. Without the perspective of people who use its services, a charity is more likely to waste resources on ineffective programs and neglect its constituents' actual needs.

But what about organizations that serve the general public, such as arts and cultural nonprofits? According to the *New York Times*, 67% of New York City's residents identify as persons of color. Yet minorities make up less than 25% of the boards of most of the city's major cultural institutions, such as the Metropolitan Museum of Art and New York City Ballet. This past summer, Mayor Bill de Blasio told museums and cultural groups that they need to boost board diversity or risk losing city funding.

Your nonprofit may not face such a direct mandate or feel that lack of board diversity hurts your bottom line — at least not now. But it's important to consider the long-term repercussions of being disconnected from your community. Eventually, support from business leaders, politicians, journalists and even donors will likely dry up.

Where's the talent?

Of course, knowing that your board needs greater diversity and actually finding qualified individuals who are passionate about your mission are two different things. You may need to relax or change some of your criteria for new board members. One of the biggest obstacles for younger and minority

candidates can be money — they may not be able to make major gifts or help out if your organization experiences a temporary cash shortfall.

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As with many of your nonprofit's initiatives, the best place to start is with your current board. Ask members to search their personal and professional address books for potential candidates. But tread carefully. Some board members may think that you're trying to replace them. If your nonprofit's bylaws cap the number of board members you're allowed to have at any one time, consider amending them to enable diversity without "firing" current members who are doing a good job.

When you're trying to build a board that reflects your community, there's no better source than local institutions. Look to your community's:

- City council,
- Chamber of Commerce,
- Rotary Club, Lion's Club and other service organizations,
- Newspaper editorial board,
- Faith leaders,
- College and university faculty and administrators, and
- Professional advisors such as CPAs, bankers and attorneys.

Also, pay attention to local news and the people who are making it. Biographical and professional information can generally be found online and help you determine whether these "newsmakers" — or possibly one of their social media connections — might be a good fit for your organization. Online tools such as LinkedIn Board Connect (nonprofit.linkedin.com), VolunteerMatch (volunteermatch.org) and boardnet*USA* (boardnetusa.org) can introduce you to promising candidates as well.

Another option is to hire a nonprofit diversity consultant. This professional can analyze your board's current makeup, identify its "gaps" and recruit board members that meet your desired criteria. Also, some communities have board placement services that train professionals to work on nonprofit boards and help to place them with charities.

Taking action

As you may already know, boosting board diversity can be a long and involved process. To help you keep your eye on the ball, the National Council of Nonprofits has a couple of useful suggestions: Publicly state your organization's commitment to diversity and then choose concrete, actionable goals that will help your board make that statement a reality. ●

DO THE STATS MATCH THE TALK?

Although there's plenty of discussion these days about diversity on nonprofit boards, the numbers don't necessarily match the current discourse. "Leading with Intent," a 2017 study of 1,700 public charities, foundations and other nonprofits conducted by BoardSource, found that board composition has changed very little in the past two decades.

In 1994, the average nonprofit board was 82% Caucasian. In 2016 that number was actually higher — 84%. Currently, 27% of nonprofit boards are exclusively white. These numbers are particularly surprising given that 65% of current nonprofit CEOs claim they're dissatisfied with the racial and ethnic composition of their boards.

Accounting matters

Keep the heart of your nonprofit beating

Your accounting department is the heart of your nonprofit. Although departments such as programming or fundraising may seem to have more obvious relationships with your nonprofit's mission, your accounting function ensures that the whole organization runs well — and remains healthy over the long term.

Indeed, accounting inefficiencies and chronic processing delays can make everyone's job harder and eventually affect your nonprofit's ability to serve its constituents. Here are several ideas for keeping this essential function operating at full capacity.

Take the first steps

A good first step toward accounting function improvement is creating policies that set cutoff dates for invoicing and recording expenses. For example, require staffers to submit invoices to your accounting department by the end of each month. Otherwise, your accounting department wastes time making adjustments and must delay financial statements. It's also a lot easier to correct errors when you catch them early. Banks may be responsible for errors only for a limited time, so accounting staff needs to report them immediately.

Improving efficiency can be as simple as designing a coding cover sheet. Accounting employees need a variety of information to enter vendor bills and donor gifts into your accounting system. Speed up the process by collecting all of that information on one page, including your general ledger account numbers, so that the employee entering data doesn't have to look them up each time.

If you pay your bills electronically, you may need to find a different way to distribute this information. Use your billing software to customize the process so that all participants (including external accountants and contract workers) can easily access it.

Another tip: Accounting employees shouldn't ever enter only one invoice or cut only one check at a time. Setting aside a block of time to do the job when there are multiple items to process is much more efficient.

Standardize whenever possible

Many organizations underuse the accounting software package they've purchased because they haven't invested enough time to learn its full functionality. If required, hire a trainer to review the software's basic functions with staff and teach time-saving tricks and shortcuts.

When accounting personnel are up to speed on the software, it will be easy for them to standardize reports to meet your nonprofit's needs without modification. This not only will reduce input errors, but also will provide helpful financial information at any point during the year — not just at month end.

Along the same lines, your nonprofit should consider performing standard journal entries and payroll allocations automatically within your accounting software. Many systems have the ability to recall transactions and can automate, for example, payroll allocations to various programs or

vacation accrual reports. But any estimates against actual figures should be reviewed periodically and adjusted to the actual amount before you close the books at year end.

Accounting employees shouldn't ever enter only one invoice or cut only one check at a time.

Commit to continuous improvement

Accounting systems that aren't monitored can become inefficient over time. So encourage employees to be on the lookout for labor-intensive steps that could be automated — or for processes that don't add value and might even be eliminated. Accounting employees should also note any unusual transactions. If necessary, contact your organization's auditor to ensure that such transactions aren't being reported improperly.

In addition, make sure that the individual or group (such as your CFO or finance committee) responsible for your organization's overall financial oversight reviews critical documents for errors or anomalies. These include monthly bank statements, financial statements and accounting entries.

CEOs and board members, in turn, need to keep accounting staff informed about operations and development activities that will require the accruals of pledges and awards of grants. And both executives and accounting staff should ensure that restricted funds are tracked.

Get a boost

Some organizations know they have accounting department issues because vendors complain about late payments or employees regularly lose files or don't know how to use the accounting software. But many don't realize they have a problem until they take steps to fix it. Chances are your accounting function can benefit from an efficiency boost. ●

To preserve their tax status, associations must observe limits

Nonprofit trade associations, or 501(c)(6) organizations, exist to promote their members' common interests and improve business conditions or "one or more lines of interest." Whether the association is a local chamber of commerce, a real estate board or a large professional group such as the American Bar Association or American Medical Association, associations' tax-exempt status is contingent on their sponsoring certain types of activities. When they fail to do so, the IRS may take action.

Misinterpreting terms

Typically, associations get into trouble when they interpret terms such as "promote common interests" and "improve business conditions" too broadly. For example, they might provide customized sales training or technology consulting for one or only some of its members. But associations don't qualify for tax-exempt status if they exist only to perform services for individual members.

The Internal Revenue Code also warns associations against engaging in business that's normally carried out on a for-profit basis. And groups that are primarily social or that exist to promote a hobby (instead of a profession or for-profit industry) generally don't qualify for the 501(c)(6) status. Courts have, in fact, denied the exemption to such groups as the American Kennel Club and American Automobile Association.

Differentiating between activities

To avoid IRS scrutiny, your association needs to be able to differentiate between activities that are considered qualified and those that are nonqualified. For example, it's perfectly acceptable for your association to attempt to influence legislation relating to the common business interests of your organization's members. You can also test and certify products and establish industry standards; publish statistics on industry conditions to promote your members' line of business; and research effective business practices and share that information with your members. These and similar activities fulfill the purpose of promoting common interests and improving business conditions.

But you should limit certain activities, particularly if they benefit specific association members rather than the industry or profession as a whole. These might include:

- Selling advertising in member publications,
- Facilitating the purchase of supplies and equipment for members,
- Offering estimating services to builders and conducting listing services for real estate board members,
- Providing workers' compensation insurance to members.

Note that your association's "primary purpose" matters when assessing activities. Most associations perform some activities that don't primarily serve common business interests. But in general, you can avoid harming your exempt status if these activities are limited in scope and number.

Avoiding UBIT

Another critical point is that, even when certain activities don't threaten your exempt status, performing services for members can trigger unrelated business income tax (UBIT). Typically members pay for such services directly, instead of through dues or other common assessments. Depending on the services your association provides and the revenues raised, additional reporting may be required and you may owe UBIT.

If you find that your association is performing more and more or substantial services for individual members, take steps to protect your association's tax-exempt status. You might, for example, form a separate, related for-profit organization to offer those services.

Keeping your focus

The IRS is on the lookout for 501(c)(6) associations that *don't* promote common business interests. Your group should primarily focus on exchanging information for business development and promoting the interests of your members and the industry. If it doesn't, it may be time to review and revise your offerings. ●

Don't let unemployment insurance fleece your nonprofit

Unemployment insurance laws vary by state, but one commonality is that states collect billions of dollars from employers in overpaid unemployment tax. Is your nonprofit overpaying? Here's how to find out and possibly reduce unemployment costs.

Ensure accuracy

The burden is on employers to ensure unemployment charges are accurate and to seek repayment if they believe they've been overcharged due to errors. First, make sure you've kept the state up to date on new hires and other employment events. Then perform periodic audits of benefit statements to uncover possible instances of overcharging, such as:

- Duplicate charges for the same period,
- Charges assessed during a waiting period, or
- Sums in excess of the approved benefit amount.

Although your state agency may be responsible for inaccuracies, it's also possible that former workers are falsifying claims. For example, claimants may not report that they have other sources of income or that they've found a new job. If you suspect this type of fraud, notify your state agency so it can investigate.

By monitoring unemployment costs as closely and regularly as you would other expenses, you may be able to rein in — or at least better estimate — payouts. It's also critical to participate in your state agency's decisions about awarding or denying benefits to claimants. If you disagree with decisions, appeal them.

Become a reimbursing employer

Many 501(c)(3) organizations have the option of becoming a "reimbursing employer." This means that, instead of paying periodic unemployment taxes to the state, you reimburse the state only for actual claims paid out to former employees. The advantage is that the actual benefits you pay often will be lower than state unemployment tax rates.

However, there are risks. States mandate dollar-for-dollar payment from reimbursing employers as soon as unemployment benefit claims are made. Your organization could face a temporary cash crunch or even more serious financial hardship if it needs to pay out more in claims than it budgeted for.

If your nonprofit chooses to become a reimbursing employer, you can handle the reimbursement process yourself or use a third-party reimburser, such as a membership association. Third-party reimbursers can save your nonprofit significant time and effort by handling administrative work and monitoring claims for accuracy. Also, they usually offer trust accounts to help with cash management.

Be vigilant

By monitoring statements for accuracy and ensuring all claims are legitimate, you may be able to reduce unemployment costs. Also be sure to weigh the pros and cons of becoming a reimbursing employer. ●

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Achieve Your Highest Potential

In keeping with our dedication to meeting the accounting and business needs of nonprofit organizations, MW&A established The Midwest Resource Group – a network of highly experienced advisors serving nonprofit organizations that we can draw upon to support our clients. Services available through the Midwest Resource Group range from insurance, HR, investment and IT consulting to executive search, training, research, website and marketing services.

We also participate in the Association Forum of Chicagoland and are active members of the Illinois CPA Society's Not-For-Profit Organizations Committee. In addition, we are members of the American Institute of Certified Public Accountants' (AICPA) Not-For-Profit Section and its Center for Governmental Audit Quality and Employee Benefit Plan Audit Quality Center.