Profitable Solutions For Nonprofits

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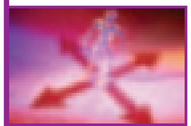
Summer 2005

Keeping employees from leaving your organization



An improving job market is generally viewed as a positive development. But for many non-profits it can mean they have to work harder to keep from losing their best employees.

Although it's true that not-for-profits can't always compete with their more deep-pocketed counterparts in the for-profit world, it's also true that workers look for more than money and benefits in a job. By reviewing other factors that affect employee satisfaction, you'll be better able to retain star workers.

5 ways to keep top talent

When it comes to retaining employees, you have to know what motivates them in addition to salary and benefits. Meaningful work, recognition programs, opportunities for professional growth, and positive relationships with supervisors and co-workers are important to your staff.

Here are five ways you can maximize the power of these intangibles to retain employees:

1. Focus on professional development. Workers have greater job satisfaction when they feel they're growing in their positions. Although budgets are always tight, allocate funds so that staff members can attend conferences and seminars. Not only do these experiences help workers learn, but they can have an energizing effect, helping employees return to their roles with renewed enthusiasm and commitment.

Encourage staff members to pursue areas of interest and build talents through internal projects. For example, if one of your program directors has a strong interest in technology, perhaps he or she can assist the information technology manager in upgrading the IT infrastructure.

2. Know what motivates your best employees. Find out what will keep your top performers committed and productive — and give it to them. This will help you design strategies to keep employees happy and engaged.

Although you have limits on how much compensation you can offer workers, you may be able to give small concessions that will help retain key employees. It can be something as simple as giving a staff member responsibility for an important initiative or offering a working parent the flexibility to occasionally leave work early for school events.

3. Be a better boss. One of the surest ways to keep employees is to have a good relationship with them. After all, how often do people leave a job when the supervisor and work environment make them feel good about themselves?

Remember that rewards don't have to be expensive to be meaningful and effective. A simple thank-you note can go a long way toward keeping employees happy.

It may help to think back to the best manager or mentor you've had and what you liked about that person. Chances are, it was not so much the qualities or knowledge the individual had that you appreciated, but the way he or she made you feel, such as valued or more confident in your abilities. Try to create the same feelings in those you manage.

4. Be generous with recognition. Another way to make employees feel appreciated is to recognize them for their contributions. Remember that rewards don't have

to be expensive to be meaningful and effective. A simple thank-you note, a mention in your company's newsletter or a round of applause at a meeting can go a long way toward keeping employees happy and engaged in their jobs.

Try to find opportunities to recognize employees individually and as a staff. You might bring in donuts to celebrate employees' work anniversaries or birthdays, or occasionally host pizza lunches to thank the staff for their hard work and dedication. These small gestures can offer big payoffs in loyalty and productivity.

When it doesn't work out

No matter how good a boss you are or how great your organization is, employees won't always work out and you'll have to let them go. But tread carefully: Wrongful dismissal is a leading reason for lawsuits against not-for-profits. You can reduce your risk of getting sued by following these pointers:

Have a written termination policy and follow it consistently. The policy should cover the reasons for employees leaving or being terminated. It should also detail the processes and rationales involved in ending a relationship, including insurance continuance, vacation or severance pay, exit interviews and return of property.

Document performance issues. Each time a manager or supervisor communicates with an employee about a significant work issue, document the discussion and put it in the worker's file. Ask workers to sign written performance reviews and disciplinary actions and give them copies of this information. Your ability to show a record of performance problems will enhance your protection if you have to fire an employee.

Give the worker another chance. Unless an employee does something that warrants immediate firing, work with him or her to improve performance or behavior. Turnover is costly, and it can be easier to coach a worker than to find and train a new one.

Provide the real reason for the termination. Managers sometimes downplay the reasons for firing a worker or make it seem as though it's not really the employee's fault. Giving false or misleading reasons can increase the likelihood of a wrongful termination claim.

5. Promote bonds among employees. Managers should foster an atmosphere in which the organization and its people respond to significant events in each other's lives — a birth, death, illness or marriage. Employees tend to stay in workplaces where they have strong connections with others and feel cared about.

Important to your organization

Although not-for-profits should always focus on keeping their best people, it's especially important in an improving economy. Otherwise, you may find yourself spending valuable time trying to hire and train employees, rather than fulfilling your organization's mission. ✧

Do you know which records to retain?

In the past, nonprofits may not have paid much attention to the issue of record retention. But with the passage of the Sarbanes-Oxley Act of 2002, the subject has become one they can't ignore. Although the corporate governance law mostly affects public companies, not-for-profits are subject to two areas: document retention and whistle-blower.

Be aware of Sarbanes-Oxley

One Sarbanes-Oxley provision makes it a crime for a corporation or its employees to alter or destroy documents to prevent their use in official proceedings. In addition, if an investigation is under way or even suspected, the law requires organizations to immediately stop document purging or risk criminal obstruction charges.

Even nonprofits that have had long-standing record retention policies — or those that have developed them since the passage of Sarbanes-Oxley — will want to make sure their policies take into consideration the law's specific requirements. Meanwhile, organizations without such a procedure will want to create it immediately.

To ensure proper handling of records, organizations need a mandatory policy that provides guidelines for both the retention and destruction of information, including electronic records. Why? A record retention policy makes certain that important documents are available when needed. It also saves money, time and space while providing a careful and routine destruction of unimportant, superfluous or sensitive documents.

Evaluate your records

Start by determining general document categories. For instance, records might have historical, legal or administrative significance. The category they fall into

is a significant factor in deciding whether you'll maintain them and for how long.

Once you've determined general document categories, develop classifications that are meaningful to your organization, such as critical, sensitive and noncritical. Certain documents such as human resource records, for example, might always be classified as sensitive, while financial ones should be categorized as critical. Remember to keep records documenting donor restrictions until requirements are met.

Review document retention requirements

Your policy will be considered sound if it's based on federal and state laws and regulations, and legal or other contractual requirements.

Retention requirements for some documents are relatively clear. For instance, you should keep financial or employment-related documents for the minimum period required by regulatory agencies. Also, keep copies of your exemption application, tax returns and annual financial statements permanently.

Meanwhile, records that pertain to your organization's day-to-day operations may not be subject to any external requirements for retention. Various funders, including governmental agencies, may have more extensive retention requirements. If you aren't sure which retention requirements apply to your nonprofit, consult your CPA for guidance.

Develop retention and destruction guidelines

When there are no external requirements for maintaining records, organizations will need to develop their own. A not-for-profit might decide to keep documents relating to strategic and operational decisions for five years, but to purge documents and e-mails about routine matters each month.

The importance of the documents will also dictate handling and storage considerations. Records should be stored in a logical manner so you can easily retrieve them. For some that are essential to keeping your organization operating in an emergency, you may need multiple backup procedures or to maintain them off site.

In addition, formulate guidelines for how to destroy documents. For instance, require staff members to shred all financial and personnel information, but throw away or recycle meeting agendas.

Apply the policy consistently

Help employees understand the different types of records and how to distinguish among them. For instance, e-mails pertaining to the selection of a new vendor would probably warrant archiving, while those discussing mundane details about a fund-raiser could be ditched.

A policy provides protection only if it's consistently followed. It's essential that nonprofits archive or purge records as scheduled. If a document request is received from a funder or tax authority or through a subpoena, and the requested information has been destroyed, it will be viewed more positively if you can show you've followed a sound and consistent policy.

Some organizations set up systems to automatically delete routine records at regular intervals; others have purge days, where time is set aside for staff members to review, archive and destroy records. Be sure to document records before purging them.

If requested information has been destroyed, it will be viewed more positively if you can show you've followed a sound and consistent policy.

No matter what system you use, charge a staff member with overseeing the document retention policy and making sure it's properly carried out. This individual should also periodically review the procedure to keep it in compliance with new or revised regulations.

Take time

Although creating and adhering to a policy requires time and effort, it's beneficial because everyone will be on the same page as to what you are keeping and for how long. ✧

As the board turns

Making sure your minutes matter

Minutes of board meetings are more than a parliamentary formality — they're a legal record of your nonprofit's activity. As such, it's important that board members make sure the minutes adequately detail matters of importance.

Why do minutes matter?

If your not-for-profit is audited by the IRS or another authority, such as a state attorney general, board meeting minutes are likely to be one of the first things reviewed. Therefore, always prepare them in a manner that would withstand official scrutiny.

For example, if the IRS reviews your organization's executive compensation policies, it will review board minutes to understand the process the board used to set compensation. If there's no reference to any discussion of compensation issues, the IRS would have to assume that decisions were made arbitrarily.

The minutes represent the actions of the board, and it's often said that if something isn't mentioned in the minutes, it never happened.

What should you include?

The secretary of the board usually is responsible for recording minutes during meetings and preparing them for the board's review. The board then approves or amends the minutes. A final copy should be distributed to every member and retained in the board member manual and your organization's official records.

At a minimum, your board minutes should include:

- Meeting date, and start and end times,
- A roll call of board members,
- Voting results, and the names of abstainers and dissenters,
- A general narrative of proceedings, including mentions of presentations, reports or documents introduced, and a summary of major discussions or debates,
- Future action steps, and
- Signatures of the secretary and board chair.

Also, make notations such as whether a quorum exists, guests who are present, and government grants, gifts and contributions received.

How much is too much?

Considering the pressure not-for-profits face to be as transparent as possible in their operations, your organization may want to highlight certain types of information that are of interest to regulatory groups and stakeholders. These areas include:

- Acknowledgment of significant gifts or contributions,
- Approval of funding contracts,
- Authorization of banking institutions,
- Board approval or acceptance for investment, conflict-of-interest and other policies,
- Approval for purchases of equipment or other major items,
- Board designations for the use of certain funds,
- Recognition of restrictions on monies received,
- Salary adjustment approvals, and
- Review and approval of the executive director's salary.

Deciding how much detail to include in your minutes can be more subjective. You'll want to be informative without delving into minutiae or including a nearly verbatim "he said, she said" recap of events. A helpful guideline is to provide enough detail so that absent board members can identify issues or discussions that may require further review.

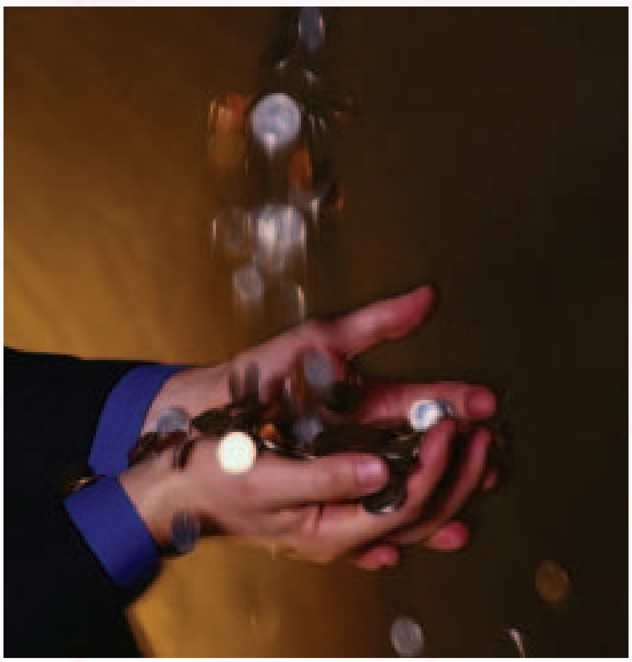
The minutes should also be detailed enough to explain how or why the board reached a particular decision. Board members can help fine-tune the minutes by carefully reviewing them to ensure key points are included and the information provided is adequate without being excessive.

A helpful guideline is to provide enough detail so that absent board members can identify issues or discussions that may require further review.

Why you should be thorough

Your meeting minutes can reflect your organization positively or negatively. So take the time to ensure they're kept in a way that supports your exempt status and reinforces the board's governance role. ✧

Help your donors manage their gifts with DMI accounts



The IRS has approved a new strategy philanthropists can use to maximize charitable donations — the donor-managed investment (DMI) account. It's believed to be the first new vehicle for organized giving by individuals directly to a charity since the Tax Reform Act of 1969.

Currently, Winklevoss Consultants is the only program manager for these accounts, which allow donors to give money to a nonprofit but continue to manage the assets, usually for up to 10 years after making the gift. Donors can receive a tax deduction for up to 50% of their adjusted gross income in the year they make the donation.

The gift then grows tax-free during the period that donors or their designated investment managers oversee it. That means a charity can end up with substantially more money than donors originally gifted.

These new accounts differ from commercial donor-advised funds in that contributions to those funds are made to a nonprofit organization that administers the funds and directs investment decisions. Although the charitable beneficiary owns gifts that are managed through a DMI account, the donor can manage the investment fund or appoint someone to do so. DMI accounts also allow for a wider range of investment options, including:

- Stocks,
- Bonds,
- Mutual and hedge funds, and
- Real estate investment trusts.

The charitable beneficiary owns gifts managed through a DMI account.

Any nonprofit organization — such as schools, hospitals, religious groups and most public charities — can offer DMI accounts. The donor and the not-for-profit enter an agreement that dictates terms and conditions under which the donor can manage the gifted funds. Donors don't pay a fee for DMI accounts; nonprofits pay a sliding scale administrative fee based on the amount of assets under management.

The accounts are expected to be popular with individuals who want to exert a greater degree of investment control over their donations and help them grow. Because of the time and energy involved in managing this vehicle, a DMI account will probably make the most sense for those who wish to donate at least $250,000.

Newsbits

IRS mandates e-filing

Beginning in 2006 for the 2005 tax year, tax-exempt organizations with total assets of $100 million or more that use paid preparers will be required to file Form 990 electronically.

This e-filing requirement will be expanded in 2007 to include tax-exempt organizations with at least $10 million in total assets and private foundations and charitable trusts, regardless of their asset sizes.

This new rule affects organizations that prepare their own returns, only if they meet the asset requirement *and* file at least 250 annual IRS returns — such as income, excise, information and employment tax forms (including Form W-2). ✧

eBay is giving more to nonprofits

Online auction site eBay has made several changes that will further benefit not-for-profits. The company now donates all fees when a seller donates 100% of an item's final sale price to a certified nonprofit and has made it easier to list goods for charity.

With improved integration of eBay Giving Works into its Sell Your Item form, sellers are able to donate some or all of an item's final sale price to a not-for-profit using the standard eBay listing process. Additionally, when nonprofits list goods on their own behalf to raise funds, eBay also donates the selling fees. All Giving Works items are distinguished on the auction site, and buyers have additional ways to search for and find listings that benefit a cause.

Since 2000, eBay listings have raised more than $40 million for not-for-profits. ✧

Revised 1023 form now in effect

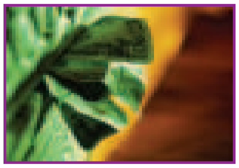
As of May 1, 2005, organizations applying for exempt status must use revised Form 1023, *Application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code*.

Form 1023, which was revised last October, has major changes including:

- You can no longer submit Form SS-4, *Application for Employer Identification Number* (EIN), with the application for exemption. You must have an EIN before filing the 1023 form.
- Limited liability companies are now eligible to apply for tax-exempt status under Section 501(c)(3) of the tax code.
- Questions about compensation and other financial arrangements with officers, directors, trustees, highly compensated employees and highly compensated independent contractors have been added to Part V.
- Applicants now have to affirm that their organizations have adopted a conflict-of-interest policy.

You can obtain Form 1023 by visiting www.irs.gov or calling (800) 829-3676. ✧

What's the key to securing donations?



Relationships, according to a recent survey. More than half (58.4%) of the 1,751 U.S. consumers polled for the *Kintera/Luth Nonprofit Trend Report* indicated that a personal request from friend or family is the biggest motivating factor for making a financial donation, followed by a message via broadcast media (12.7%) and mail solicitation (9.8%).

The survey noted that the Internet is an effective tool for boosting donations because individuals can quickly and easily ask others to support a cause. ✧