

Imagine

what we can do together

Accounting Newsletter for Non-Profit Organizations

Unlock Your Form 990's Full Potential

by Jill A. Shaw, CPA, Partner

The IRS is not the only one reviewing your organization's Form 990. Form 990 is open to public inspection and, with today's technology, can be and is widely distributed to the general public. In fact, entire organizations have dedicated their existence to analyzing nonprofit organizations for the public's benefit. With this high degree of availability to the general public, why not unlock your Form 990's full potential?



When preparing your organization's next Form 990, keep in mind these ways to utilize increased transparency as a marketing opportunity.

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Identifying Leadership Traits

by Corey Arvizu, CPA, Managing Partner

What do the following numbers have in common? 23, 10, 14, 7, 9, 22. According to the highest ranked articles from a Google search of the phrase "leadership traits," these are the number of traits or qualities a leader should possess. One article actually had seven categories with over 100 total individual leadership traits identified. Some of the traits such as honesty, communication and integrity were common amongst the various lists. Other traits such as celebration, humor, and endurance were unique to specific lists. The guidance and recommendations for what makes a good leader can certainly be difficult to sort through for those of us looking to develop our own leadership skills.

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Unrelated Business Income: What Is It?

by Carlie Larsen, CPA, Senior Associate

Some activities in which nonprofit organizations engage generates revenue that is considered taxable by the Internal Revenue Service. Even though the revenue is used to support the nonprofit's mission and tax exempt status, the way the revenue was generated may be considered an unrelated business activity, and the income could be taxable. Unrelated business income is income from a trade or business that is regularly conducted by an exempt organization and not substantially related to the organization's exempt purpose.

Activities are considered unrelated business if the following three requirements are met:

1. It is a trade or business.
2. It is regularly carried on.
3. It is not substantially related to furthering the exempt purpose of the organization.

One of the most common activities that generate unrelated business income is the sale of advertising space in various publications.

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Unlock Your Form 990's Full Potential

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Maximize every possible space on the Form

990. The disclosures on pages one and two of the Form 990 are critical. Be sure to highlight what makes your organization shine, and use these statements as an opportunity to showcase your organization in a way that will capture the reader and garner more support for your organization.

Mission Statement: Donors are becoming more informed and increasingly want to contribute to organizations that deliver on their mission statement. Your organization's mission statement is now prominently located on page one of Form 990, allowing any reader to immediately understand why your organization exists. This is an excellent opportunity to engage the readers with key insights regarding the organization's mission and its value to the community. For instance, a mission statement of "to provide comprehensive and compassionate hunger care whenever and wherever it is needed" may be more inspiring to donors and volunteers than simply "to operate a food bank."

Program Accomplishments: Part III of the Form 990 asks the organization to describe its mission and the programs or activities it undertook during the year for the three largest programs, measured by expenses. Take the time to carefully craft the language in these areas and utilize this section to present the organization in the best possible light. This is your chance to get donors excited about your organization! Describe accomplishments in numerical quantities (e.g., number of clients served, number of meals served) and use quantitative measures of results to describe each program's outcome. For example, don't simply state the minimum information, "Mobile Food Pantries: \$258,680." Instead, say something like, "We had 75 mobile pantries providing healthy food to 36 different

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Understanding the Difference Between Subrecipient and Vendor

by Marvin M. Mendieta, CPA, CGFM, Audit Manager

When an organization awards federal monies to another entity, one should consider the relationship with the awarded entity that is created from such arrangement. Depending on how the arrangement was made, the awarded entity could be classified as either a subrecipient or a vendor, each having a distinct role in the arrangement. So what is the difference between a subrecipient and a vendor?



According to OMB Circular A-133 §__.210, a subrecipient:

1. Determines who is eligible to receive what Federal financial assistance;
2. Has its performance measured against whether the objectives of the Federal program are met;
3. Has responsibility for programmatic decision making;
4. Has responsibility for adherence to applicable Federal program compliance requirements; and
5. Uses the Federal funds to carry out a program of the pass-through entity.

On the other hand, a vendor:

1. Provides the goods and services within normal business operations;
2. Provides similar goods or services to many different purchasers;
3. Operates in a competitive environment;
4. Provides goods or services that are ancillary to the operation of the Federal program; and
5. Is not subject to compliance requirements of the Federal program.

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Identifying Leadership Traits

(cont'd from P.1)

One of my first attempts at discussing leadership with those I supervised was a presentation called "It's Not Business, It's Personal." Obviously this was an attempt to turn the tables on the common phrase known in the business world with some relationship-based concepts. The goal was to convey my thoughts to those I managed about how to approach their career at Heinfeld, Meech & Co. The message included a concept called "success fuel" consisting of common leadership terms such risk, empowerment, vision and strategy. The presentation also had a number of what I believed to be very insightful and motivational quotes, including one from Oprah Winfrey. I even had a reference to the 1980s movie "An Officer and a Gentleman," the message of which I'm sure was entirely lost on the younger individuals who were born about the time that the movie was released.

Was the message received by the staff? Sure. They seemed to appreciate the effort I put into preparing the presentation as well as the time we spent together discussing the leadership and career development topics outlined in the presentation. I still use some of the content and inspirational quotes in staff development presentations. (However, I no longer use the material referencing "An Officer and a Gentleman.") Looking back, the leadership traits I discussed were likely a reflection of where I was at that point in my own leadership development. If I were asked today to list some leadership traits I believe to be important some that would make the list include sincerity, fairness, respectful, confidence, and perspective. All of which are surely identified in one form or another on a leadership qualities list.



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Unrelated Business Income

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There is a fine line between related and unrelated business activities and the resulting income. Some of those activities will not be taxed, even if they don't seem related to the nonprofit's mission. For example:

- Activities conducted by volunteers
- Activities conducted for the convenience of members, students, patients, officers, or employees.
- Sale of donated merchandise
- Distribution of low-cost articles

Even though an exempt organization is allowed to engage in unrelated business activities, with a possible tax implication, too much of this type of activity may alert the IRS who will then review the entity's tax-exempt status. As an organization, just be sure that these activities do not absorb too many resources from staff or volunteers, and be sure to not let the income become too large a percentage of your total annual income.

For further guidance and explanations on unrelated business income, check out the IRS website (www.irs.gov) and the IRS Publication 598 (<http://www.irs.gov/pub/irs-pdf/p598.pdf>). ■

HM News

We welcome our newest clients: Tucson Museum of Art, Homeless Youth Connection, and Children's Museum Tucson. We look forward to helping you achieve new levels of accounting and managerial success!

We are also happy to announce these recent staff promotions: Joshua Jumper, CPA, and Christopher S. Goeman, CPA to Audit Manager, Anthony St. George to Senior Associate, and Kenneth McGovern to Staff Associate II.

Subrecipient vs. Vendor

(cont'd from P.2)

In essence, a subrecipient plays a significant role in ensuring the success of the Federal program and meeting the compliance requirements by having the responsibility of making the decisions to properly carry out the program. A vendor, in contrast, acts as a support for the program by providing the goods and services in a competitive market without necessarily being responsible for the program's overall success and compliance requirements.

Sometimes, making the determination between a subrecipient and a vendor may not be as straightforward due to special circumstances (e.g. having some characteristics of both a subrecipient and a vendor under the same arrangement). Also, not all characteristics listed above can be present for a given arrangement. In such situations, professional consideration should be given when making the determination.

Finally, the substance of the relationship is more important over the form of the agreement when making the determination. Careful examination of the characteristics of the arrangement can reveal a better picture of the relationship than the label used for the arrangement. Understanding the difference between a subrecipient and a vendor can help better delineate responsibilities to the proper parties for the program's overall success. ■

NPO Accounting News Blog

To access more articles, including topics like changes by the IRS to applications for tax-exempt status and the AICPA's new code of conduct, follow our non-profit blog at <http://npoaccounting.blogspot.com/> or follow our tweets of the blog posts at https://twitter.com/Gov_NPO_CPAs.

HMU Events

Details and links to online registration can be found at www.heinfeldmeech.com/hmu. For more help, contact Susan at 520-742-2611, x107 or hmu@heinfeldmeech.com.



Detailed and online registration are usually available about 6-8 weeks before each event.

Learn over Lunch Workshop - Form 990

Location: Flagstaff, AZ (United Way of Northern Arizona)

Date: Thursday, October 16

Learn over Lunch Workshop - Charitable Contributions

Location: Phoenix, AZ (3003 N. Central Ave.)

Date: Friday, November 14

Payroll Essentials for Governments and Non-Profits (full-day workshop)

Location: Mesa, AZ (Mesa Convention Center)

Date: Monday, December 8

Learn over Lunch Workshop - Topic TBA

Location: Phoenix, AZ (3003 N. Central Ave.)

Date: Thursday, December 18

Learn over Lunch Workshop - Functional Expenses

Location: Phoenix, AZ (3003 N. Central Ave.)

Date: January 2015 (specific date TBA)

Additional dates for Tucson and Flagstaff will be announced in the upcoming months.

Unlock Your Form 990's Full Potential

(cont'd from P.2)

communities. 5,535 families were served for a total of 16,658 people receiving 211,069 meals." It could be helpful to involve your development director or marketing staff in the completion of this section since they are coming from a different background than the finance department.

Schedule O: Anything that does not fit on Part III can be described on Schedule O. Nonprofit organizations can use Schedule O to report on additional activities that are considered of comparable or greater importance, although smaller in terms of expenses incurred (such as activities conducted with volunteer labor).

Pay attention to policies and governance.

Not only does the IRS believe that if strong policies are in place an organization is more likely to be compliant with laws and regulations, but the general public will also scrutinize your policies and governance. Within the Form 990, there are questions and disclosures relating to policies such as compensation, whistleblower, record retention/destruction and conflict of interest. Some of these policies are not required by the IRS, but it is considered a best practice to have them in place. Meeting these standards sends a strong message to donors and stakeholders that your organization values open, informed and accountable governance.

Tell Your Story! Form 990 is a more important compliance and marketing tool than ever before. It is vitally important for organizations to take the necessary steps to ensure compliance while sharing their mission with the public. If your organization thinks of the Form 990 as simply an IRS report, then you are missing a huge opportunity to showcase the great work your organization does! Even if your Form 990 is prepared by an outside firm, you should take control of the sections that allow you to tell your organization's story. ■

Identifying Leadership Traits

(cont'd from P.3)

If asked five years from now, the list will likely change once again.

When there are so many qualities that a leader is expected to possess, how does one looking to enhance leadership qualities sort through all of the recommendations? My initial response is experience. If I have learned one thing it is that we typically get better at things we do often and regularly, whether that be personal interests such as sports, cooking, and painting, or professional interests such as training, public speaking and leadership. Most of us have inherent instincts to continually learn from both our failures and successes – exposure to both helps us grow and evolve as a leader.

Look for opportunities to be a leader with a professional membership association, the board of another local nonprofit, or even an internal committee of your own organization. By gaining leadership experience with organizations and projects for which you are passionate, you will likely develop your own list of leadership traits that are very much unique to your own leadership style. ■

About HM

Heinfeld, Meech & Co., P.C., CPAs and Business Consultants, has offices in Tucson, Phoenix and Flagstaff, Arizona. We are dedicated to serving the non-profit industry and we offer this free newsletter as part of our commitment to providing resources and training to non-profit business personnel.

For more about our firm, please visit our web site at www.heinfeldmeech.com.

