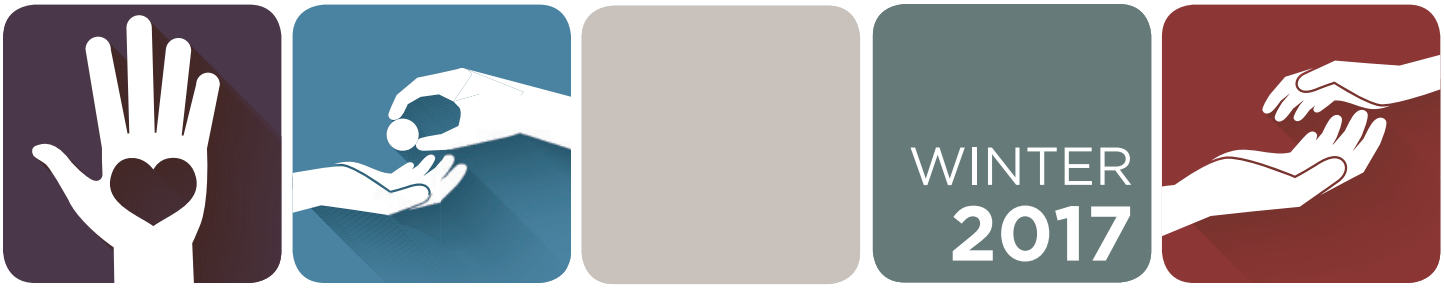
PERSPECTIVES

NOT-FOR-PROFIT INDUSTRY INSIGHTS



A Road Map for Achievement

Your organization may have many ideas about what it hopes to accomplish, but is it stated specifically what needs to be done to realize them? Strategic planning may help. It's the process of establishing your organization's goals and outlining the steps and resources needed to achieve them within a given time frame. By aligning resources and staff, the final plan should provide your nonprofit with direction for the next several years.

This process allows your organization to more efficiently and effectively use its assets to best fulfill its mission. It can help in fundraising by presenting to potential donors what you want to accomplish and how you're going to do it. And by including representatives of all interested parties in the planning process, it ensures that they have a say in the mission and are ultimately working toward the same goals.

Start with Collaboration

A good place to start the strategic planning process is by establishing a committee that might include senior staff, board members, key donors, and volunteers. Forming a diverse group allows the inclusion of many points of view and lets participants feel that they have ownership in the end result. For this step, it may help to enlist a consultant to help organize the process, assign tasks, and provide feedback.

What's the Mission?

A mission statement clearly states why the nonprofit exists and what its purpose is. An effective mission statement states who your clients are, what your organization provides, and how you provide those goods and services. It sets the stage for the rest of the strategic planning process. The mission statement should be periodically reviewed to ensure that it accurately reflects the organization's current goals.

Goals and Objectives

Goal setting separates the mission statement into more specific achievable items, establishing the steps that the nonprofit needs to achieve to fulfill its purpose. Specific objectives set quantifiable and measurable standards for each goal by establishing milestones and benchmarks.

List of Resources

Prioritizing each goal and objective helps make the most efficient use of available resources. Resources include not just funds raised but also intangible assets, such as knowledge, skills, and the experience of those involved with the organization. Making an inventory of resources is part of the planning process.

Strategic Thinking

Once an organization determines its resources, it can start forming strategies for achieving its goals and objectives. A part of this process is "S.W.O.T." analysis, which examines an organization's strengths, weaknesses, opportunities, and threats. The aim is to maximize strengths, minimize weaknesses, and create strategies that are best for the organization.

Monitoring and reviewing the plan at regular intervals might reveal adjustments that are necessary. Strategic planning takes time and resources but can go a long way in helping an organization accomplish what it intends to.

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Nonprofit Accounting Rule Changes

In an effort to improve how nonprofits present their financial statements, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes how a nonprofit organization categorizes its net assets, as well as the information presented in financial statements needed to assess liquidity, financial performance, and cash flows. The changes are intended to help donors, grantors, creditors, and other financial statement users by providing more transparency and less complex information.

Summary of Changes

Net asset classification. The updated standard reduces the number of net asset classes from three (unrestricted, temporarily restricted, and permanently restricted) to two. The new categories are net assets with donor restrictions and net assets without donor restrictions. Footnotes will be required to include the composition of net assets with donor restrictions and also the timing and nature of the restrictions. In keeping with current requirements, disclosures should show an analysis by time, purpose, and perpetual restrictions.

Underwater endowments. Endowments that have a current fair value that is less than the original gift amount, or "underwater endowments," will now be required to report underwater amounts of donor-restricted endowment funds as net assets with donor restrictions instead of the unrestricted net assets category. Newly expanded disclosures include the original amount of the endowment, the policy regarding spending from these funds, and whether or not the policy was followed.

Liquidity and availability of resources. The standard requires the nonprofit to disclose qualitative information regarding how it manages liquid available resources to pay for general expenditures within one year of the balance sheet date. For the same general expenditures, quantitative information is now required on the availability of financial assets to meet cash needs.

Expenses and investment return. To help readers assess how a nonprofit uses its resources, the new standard requires that the function and nature of expenses be reported and analyzed. Nonprofits will be required to present investment return net of all related external and direct internal expenses. Disclosure of netted expenses is no longer required.

Operating cash flows. Continuing with previous methods, the standard permits nonprofits to choose between using the direct or indirect method for presenting operating cash flows. But organizations that use the direct method are not required to present the indirect method reconciliation.

Board-designated net assets. For resources with self-imposed limits mandated by the board (known as board-designated net assets), nonprofits will have to disclose the amounts and purposes of the designations.

Long-lived assets. In the absence of donor stipulations, nonprofits will be required to use the placed-in-service approach for the expiration of restrictions on gifts of cash or other assets used to acquire or construct a long-lived asset. Use of the over-time approach for the expiration of restrictions on capital gifts won't be allowed.

Questions?

We're here to help your organization analyze and implement the new standard. Please contact us for assistance.

"The changes are intended to help … by providing more transparency and less complex information."

Applying the New Standard

Accounting Standards Update No. 2016-14 is the first major update to nonprofit accounting in almost 25 years. Becoming familiar with the changes as soon as possible can smooth the transition for organizations.

In implementing the new standard, nonprofits will have to make some important decisions, including:

- How to disclose information regarding the function and nature of expenses: on the face of the statement of activities or in the notes?
- Which method — indirect or direct — will be used to present the amount of operating cash flows? (The indirect method reconciliation will no longer be required if using the direct method.)

The standard takes effect for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted.

Reviewing Insurance Needs

Many nonprofits operate on small budgets and may be susceptible to unanticipated expenses. Insurance can help provide coverage when something goes wrong. Having appropriate insurance is a must for protecting the employees, volunteers, and assets of a nonprofit organization.

Several different policies may be necessary to provide adequate protection. The key is to determine what type of insurance is necessary. An organization's board should determine the risks faced by the nonprofit and how to manage them. The board should also establish a process to periodically review incidents or claims. Some common types of insurance for nonprofits include:

Commercial General Liability (CGL)

CGL insurance provides coverage for damages to pay someone injured on the nonprofit's property. This coverage does not apply to employees, who are covered separately by workers' compensation insurance.

Workers' Compensation, Accident Insurance

Workers' compensation pays medical expenses, disability, and death benefits for injured non-volunteers. Volunteer accident insurance pays for injuries to volunteers while working for the organization. Unless there's an additional volunteer exclusion added, a standard general liability policy can cover volunteer injuries.

Directors & Officers (D&O)

A lawsuit against a nonprofit might name a board member or officer and allege a wrongful act that could lead to financial loss. D&O liability insurance covers the cost of defending the directors and officers and pays any resulting monetary settlements. Definitions of wrongful acts can vary by insurance company, so nonprofits should examine the list of exclusions.

Commercial Property

These policies cover damage to physical property involving fire, earthquake, vandalism, storm, or similar types of events.

Auto

This insurance covers any staff or volunteers using vehicles while performing activities related to the nonprofit and includes property damage or injury the driver may cause to others. If an organization owns a car, then a commercial auto policy is needed. Non-owned auto liability insurance provides some liability protection for the organization when someone uses his or her vehicle while performing duties for the nonprofit.

Budgeting for Fundraising

Fundraising plays an essential role in helping nonprofit organizations secure the money they need to fulfill their missions. Creating a budget for fundraising can help an organization utilize available resources most effectively.

Determining How Much Is Needed

A first step in the budgeting process is calculating the amount of additional capital needed. Subtracting expected income for the upcoming period from projected expenses can provide an estimate. Expected income can include donation pledges, endowment earnings, grants, and any other income considered highly certain to be received or committed. The difference between expected income and project expenses is an organization's fundraising goal.

Forecasting Revenue

Analyzing what has previously been raised can provide a baseline to show how realistic it can be to attain the fundraising goal. Look at what your organization's fundraising history has been over recent years. Examine also any specific trends affecting the contribution sources and methods (e.g., online or by mail). Finally, be aware of trends in aggregate giving among all nonprofits, as well as those in your sector.

Benchmarking Data

Nonprofits can gain valuable insight by digging deeper into the fundraising efforts of other, similar organizations. Consider examining data from their Form 990s to see how they are raising and spending money. Such research might suggest changes in strategy if, for example, those organizations are raising money through special events and online campaigns. Similar organizations may also be raising more money by hiring special consultants.

Looking Within

To help further develop a fundraising budget, nonprofits should examine trends in their own fundraising efforts. Patterns in recent total revenue and expense figures, donations by type, and numbers of new and lapsed donors can indicate what has and hasn't worked for an organization. Understanding where revenue and expenses have come from allows organizations to measure how effective their fundraising budgeting has been and how to best use resources in the future.

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Acting on a Charity's Behalf

If a for-profit business collects donations on behalf of a charity, are the contributions tax deductible for the donors? If the business is acting as an agent for the charity, the donations may be tax deductible. The agent can also provide contemporaneous written documentation to donors to substantiate their income tax deductions. The agent should comply with guidelines to establish that it's a true agency relationship.

Examples of Agent-charity Relationships

One illustration of an entity acting as an agent of a charity is a company soliciting voluntary donations from its employees through payroll deductions and passing the donations on. Another instance is that of a utility company allowing customers to pay additional amounts on their utility bills to be forwarded on to the charity.

IRS Guidelines to Agency Relationship

In a ruling involving a vehicle donation program, the IRS clarified characteristics that support a valid agency relationship:

- The written agreement clearly established an agency relationship
- The company was to act on the charity's behalf and be subject to the charity's control for certain activities, such as soliciting donations and accepting the donated property
- The charity remained the equitable owner of the donated property until it was sold
- The charity bore the risk of loss or damage to the donated property until it was sold
- The charity had the right to inspect the agent's financial statements for the donation program
- The company agreed to provide accounting reports to the charity

The agent should determine if it's considered a professional fundraiser under the applicable state law. The laws defining a professional fundraiser vary by state. Depending on the state, there may be additional registration and filing requirements for entities that are professional fundraisers.

Can We Help?

Our firm offers a broad range of audit, tax information, return preparation, and executive board consulting services to nonprofit organizations. If we can be of service to you, please call.