# Profitable Solutions for Nonprofits

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JM&M

Jones, Maresca & McQuade, P.A.
Certified Public Accountants

10500 Little Patuxent Pkwy., Suite 770, Columbia, MD 21044 • (410) 884-0220
1730 Rhode Island Avenue, NW, Suite 800 Washington, DC 20036 • (202) 296-3306
www.jmmcpafirm.com

# Taking the long view: Sustainability

In the wake of the most recent recession, many nonprofits are taking a hard look at their sustainability over the long term to be ready to face uncertain economic times. After all, an organization in poor financial health may find itself forced to cut programs and services when they're needed the most. Fortunately, steps you can take now may help reduce such risks while allowing your nonprofit to fulfill its core mission.

### THE CHALLENGE OF NONPROFIT FUNDING

Having a limited number of funding sources is the biggest sustainability challenge for many organizations. U.S. nonprofits typically receive funds from the government, foundations and individual and corporate donors, and often depend heavily on a few funding sources — for example, an annual government or foundation grant.

The danger in such limited reliance was amply illustrated when government and foundation support dried up during the economic downturn, and many nonprofits were forced to close their doors. The problems compounded for nonprofits serving low-income populations that could no longer provide any financial support themselves.

If you don't have a variety of funding sources, it's imperative that you branch out. The broader the base, the more stability and protection from economic challenges your organization will have.

### INCOME THROUGH FEES

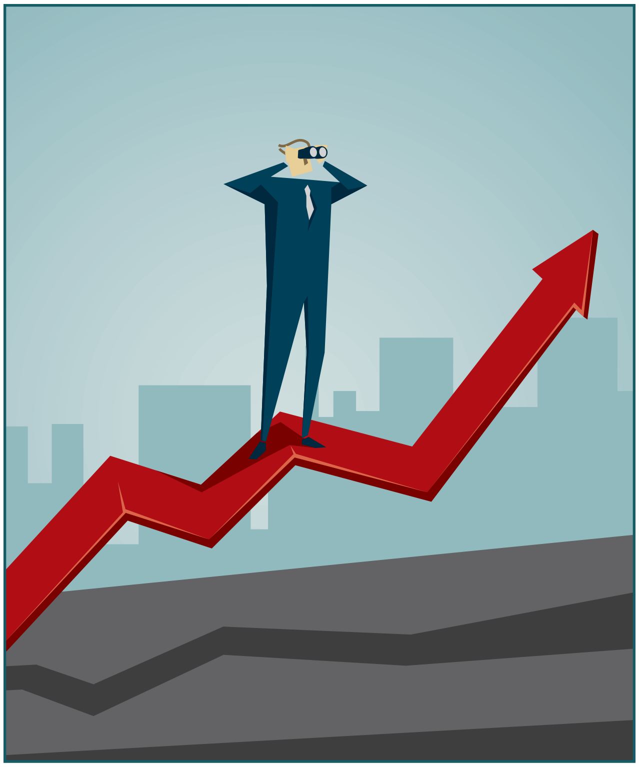
A nonprofit needn't rely solely on outside funders to improve financial sustainability. It might increase revenue by expanding its fee-based service offerings to new locations or populations. For example, an organization that provides services to children with disabilities in schools also could offer the services to children with disabilities in foster homes.

### PARTNERSHIPS

More and more, nonprofits are pursuing formal partnerships with other organizations — sometimes at the prompting of funders — to share costs. Organizations with similar missions and serving similar populations can collaborate to make better use of limited resources while reducing competition for funding. They also can more quickly scale up high-demand programs or services by joining forces.

### RAINY DAY PREPARATION

Maintaining an adequate reserve is a key component of financial sustainability, but some organizations still lack such a fund. Even some nonprofits that have reserves haven't established a formal policy for determining the appropriate amount, maintaining that amount and allocating funds when necessary.



## OTHER STRATEGIES

Of course, having multiple funding sources is no guarantee of security — a harsh economy can have widespread consequences that affect multiple sources. Additional strategies that more indirectly affect financial sustainability include the following:

**Step up branding.** Strategic marketing and branding are key for promoting an organization and achieving stable financial standing, yet many organizations neglect this approach. A brand that clearly communicates a nonprofit's mission and services helps to establish a solid reputation that builds trust among donors. This can be particularly crucial when funding pools are shrinking.

**Evaluate outcomes.** Donors and other nonprofit stakeholders are showing greater interest in the outcomes of programs and services and other nonfinancial measures. Often the number of lives improved has a greater impact on funders than the number of dollars spent. And they want to fund programs that are successful. By evaluating and sharing outcomes, a not-for-profit can demonstrate value, effectiveness and accountability.

Outcome evaluation also is an essential tool for decision making. You can use the process to identify underperforming programs and make necessary tweaks or to prioritize expenditures if funding declines or additional funding becomes available.

**Assess your financial standing.** No organization can accurately evaluate its financial sustainability without timely, comprehensive and accurate financial reporting. How can a nonprofit know how much funding it needs to support its programs and services without knowing how much it costs to operate?

In addition to providing a current picture of financial standing, financial reports should compare actual figures with historical and projected numbers. Some nonprofits also are introducing "dashboards" that give real-time financial data, ratios and trends in easily understood graphic form.

**Involve the board.** It's not enough for the board to simply review financial statements before its meetings. Board members also must provide true fiscal oversight and not leave major financial decisions to staff, no matter how trusted and loyal.

Every board member should undergo training on relevant financial issues and be able to understand financial statements. The finance committee should report regularly to the full board and engage in dialogue about their reports and the organization's financial health. The board shouldn't merely take a backward-looking view but should also consider the future — for example, taking into account how current trends and developments might affect future plans for funding the nonprofit's mission.

*When budgeting, every nonprofit should take the time to engage in annual contingency planning exercises. How could your organization continue to serve its mission if it suffered a 10% drop in funding?*

**Plan for contingencies.** When budgeting, every nonprofit should take the time to engage in annual contingency planning exercises. How could your organization continue to serve its mission if it suffered a 10% drop in funding? A 20% drop? Evaluating such scenarios in advance can provide valuable guidance and preserve mission-critical programs and services in times of crisis.

## A CONTINUAL GOAL

Achieving financial stability is a critical part of sustainability and should reflect both the organization's mission and its financial needs. Your financial advisor can help you objectively assess and improve your nonprofit's position. ❋

# Think before you jump

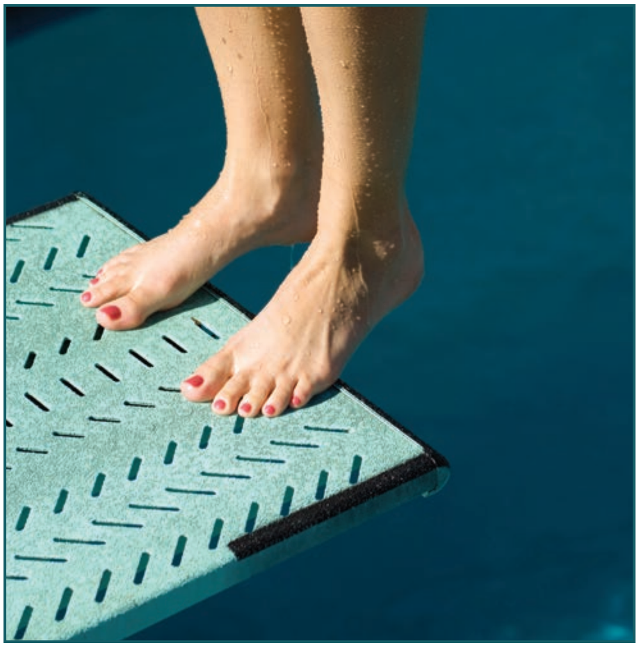
## *Capital campaigns call for serious advance planning*

Does your nonprofit have a *big* expenditure on its mind? For example, do you see a need in your organization's future for a new building or large-scale renovation of your current headquarters? Funds for big-ticket projects generally don't come from routine income sources. Depending on the goal, a capital campaign may fit the bill.

### PLANNING IT OUT

Committing to a capital campaign isn't easy. The fear that people won't donate in an uncertain economy can cause hesitation to ask for more funds. But when a dedicated group within your organization grabs on to this opportunity to expand and grow, it's time to start planning.

It's no surprise that a massive effort to raise money for a new building, costly equipment or an endowment is called a "campaign." Like a succession of military attacks designed to produce a particular result, a capital campaign is a series of efforts aimed at a specific end. And like a wartime campaign, a capital campaign calls for strategic preparation and skillful execution.



### LINING UP MANPOWER FOR YOUR CAPITAL CAMPAIGN

Volunteers play a major role in capital campaigns. Look to your current and past board members, project leaders and rank-and-file volunteers. Also be prepared to draw from staff, knowing that you can't rely on volunteers to do all the work.

As you assess your manpower, you might see a need to hire additional staff, such as a professional fundraiser and administrative personnel. Seek a mix of talents and personal qualities among your volunteers, board members, staff and new hires. Include in the mix energetic individuals with strong people skills.

The campaign might span three or more years. Campaign workers typically raise funds through direct mail, email, direct solicitations, special events and other traditional and creative maneuvers. (See "Lining up manpower for your capital campaign" above.)

### FINDING A LEADER

You'll need a leader to head the campaign and direct the troops into battle. Look to your current and past board members and the greater community to find someone with the right qualifications. You want to find someone who has a fundraising track record and knows your geographic area and local issues. Additionally, you'll want to choose an individual who'll be fully committed to the cause and can motivate others.

### TARGETING DONORS

To ensure your staff and volunteers are focusing on the most promising donors, start by identifying a large group to solicit for donations. Draw your list from past donors, area business owners, board members, volunteers and any other likely prospects.

Then narrow that list to those with potential for the largest gifts and talk to them first. Secure the large gifts before pursuing anything under $1,000.

Most people don't like asking other people for money. So it will be necessary to train team members on how to tell your story and solicit funds.

### CREATING CONSISTENT MESSAGES

Make sure that your key constituents are on the same page about the vision for the campaign and the primary strategies for getting there. Break down your overall goal into smaller objectives and celebrate reaching them. Regularly report gifts, track your progress toward reaching each goal, and measure the effectiveness of your activities.

Craft your campaign message carefully. Here's where a professional fundraiser, experienced with capital campaigns, might come into play. Potential donors must see your organization as capable and strong, but also as the same group they've championed for years. Additionally, instead of focusing on what donations will do for your not-for-profit, show potential donors the impact on the community.

### CHOOSING THE LAUNCH TIME

Fundraising wisdom holds that you shouldn't go public with your campaign until you've secured a significant amount of "lead gifts" from major donors. The recommended percentage varies, with organizations commonly waiting until 50% to 60% of their fundraising goal is reached before announcing the campaign. As the campaign progresses, publicly recognize your donors.

### 3 YEARS OR MORE

Capital campaigns often stretch over three years or more. Making sure that your capital campaign plan has the legs to survive the long haul will help you reach your goal. ❋

# The OMB rule on indirect costs: What you need to know

**The Office of Management and Budget's Uniform Guidance (the Omni Circular) has brought sweeping changes for nonprofits that receive federal funding. This is particularly true with the new rule requiring agencies and other entities allocating federal dollars to reimburse organizations for indirect costs (also known as administrative or overhead costs). Nonprofits need to get up to speed on their rights and responsibilities under the rule — to avoid forfeiting reimbursement dollars.**

### HOW IS REIMBURSEMENT DETERMINED?

The rule on indirect costs applies to new awards and additional funding on existing awards made after December 26, 2014. Under the guidance, federal agencies — and pass-through entities that allocate federal funding, including states, local governments and nonprofit intermediaries — must reimburse nonprofit recipients for their "reasonable" indirect costs. The guidance cites several "typical examples" of indirect costs, including:

- Depreciation on buildings and equipment,
- The costs of operating and maintaining facilities, and
- General administration expenses (for example, the salaries of executive officers, and expenses related to personnel and accounting).

Nonprofits will be reimbursed for indirect costs under one of three methods: according to an existing federally approved negotiated rate, a new negotiated rate or a default de minimis rate of 10% of the modified total direct costs.

> *Despite the clarity of the new reimbursement requirements, nonprofits may still encounter some obstacles to recovering their indirect costs.*

The ability to recover part of their overhead should relieve some of the financial pressure on nonprofits that receive federal awards and allow them to carry out a program with less impact on the overall organization. By being able to charge overhead costs to the federal grant, organizations are able to build infrastructure and focus on sustaining their activities.

### WHAT SHOULD YOU BE DOING NOW?

Despite the clarity of the new reimbursement requirements, nonprofits may still encounter some obstacles to recovering their indirect costs. Grantors have obvious incentives not to get on board. Some might even attempt to persuade organizations to waive their ability to collect — waivers, however, are prohibited by the guidance. Others may not be up to speed on the requirements or may reduce other line items being funded to allow for indirect costs.

It's critical that your accounting system distinguish between, and closely track, direct and indirect costs. To accomplish this goal, you might need to make adjustments to the method you're using to account for indirect costs.

You also may need to reach out to government agencies and pass-through entities to negotiate an indirect cost rate. In some cases, you might find that the default rate of 10% is higher than what you can negotiate. Organizations that have an approved negotiated rate must use that rate for all federal awards and can't opt for the default rate. If you have an existing negotiated rate, you'll need to request a one-time extension good for up to four years. If it's granted, you can't request another review during that period. At the end of the period, you'll be required to reapply for a new rate or elect the default rate of 10%.

### THE BOTTOM LINE

The new indirect cost reimbursement rule ultimately should be a boon for nonprofits. But it may require you to make some critical decisions, including which reimbursement method to use, and potentially how to adapt your accounting system. Your financial advisor can assist with these decisions. ✻

# Newsbits

## FASB PROPOSES ACCOUNTING CHANGE FOR NONPROFITS

The Financial Accounting Standards Board (FASB) has issued a proposed Accounting Standards Update (ASU) which would significantly change a 20-year-old financial reporting model. ASU No. 2015-230, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*, is intended to simplify the current net asset classification requirements and the presentation of information in nonprofits' financial statements and footnotes about liquidity, financial performance and cash flows. The ASU wouldn't change the information being reported, but would require it to be presented in a more consistent manner that would be easier for users of financial statements to understand.

Among other changes, the proposed update would eliminate the requirement that nonprofits present temporarily restricted assets and permanently restricted net assets — and transactions in each of those asset classes — separately. Instead, a nonprofit would report amounts for "net assets with donor restrictions" and "net assets without donor restrictions," along with the currently required amount for total net assets.

The proposed update also would require changes to the reporting of operating activities on the statements of activities, with investment income generally not included in the results of operations. The proposed presentation would be more consistent with the method many nonprofits currently use to track budget vs. actual results. In another change, nonprofits would be required to present on their statements of activities a uniform measure of operations — reflecting their mission and the availability of funds.

Additionally, nonprofits would be required to present their operating cash flows using the direct method, which provides more meaningful information to users than the currently allowed indirect method. And nonprofits would need to provide enhanced disclosures on several matters, including liquidity of assets and operating expenses by nature and function.

This fall, the FASB is expected to start deliberations on comments it has received, with final guidance taking effect within one to two years. ❋

## SPAM FILTERS COST NONPROFITS $15,000 ANNUALLY

The 2015 Nonprofit Email Deliverability Study found that, although donations made in response to emails accounted for about a third of online fundraising revenue in 2013, one in eight emails never reaches an inbox, instead being marked as spam. As a result, according to the study, a nonprofit loses on average almost $15,000 each year. The study — conducted by EveryAction, a technology solution provider that helps nonprofits organize fundraising campaigns — analyzed 55 national nonprofits with mailing lists of at least 100,000. They concluded that nonprofits could raise their email fundraising dollars by 14% by reducing the emails that are considered junk mail. ❋