

Profitable **Solutions** *for* **Nonprofits**

Fall 2009

Rainy days

Viewing operating reserves
in the current economy

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spotlight on donor intent

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Rainy days

Viewing operating reserves in the current economy

A lot of nonprofits are seeing less revenue coming in coupled with greater demand for their services. As a result, they're struggling to cover expenses. If your organization is in this situation, you may already have turned to your operating reserves for needed cash — and you may see no end in sight.

But before you tap further into your nest egg, take pause: Consider the purpose, nature and limits of these unrestricted funds.

WHAT ARE THEY?

Operating reserves are a specified balance of unrestricted net assets that can be used for operating purposes in dire situations. Primarily, they provide financial protection from unexpected revenue shortfalls or increased expenses.

Consider creating a two-year budget for weathering the economy along with a contingency plan — a “Plan B” — if results are worse than expected.

Enough funds to cover three months of operating expenses is often viewed as the bare minimum to keep in reserves. But if your nonprofit is more dependent on contributions and grants than on program service fees and membership dues, your reserves may need to provide for a longer period, such as six months to a year.

HOW SHOULD THEY BE USED?

One could argue that, if operating reserves are savings for a rainy day, now is a stellar time to use them.

Indeed, operating reserves currently are helping many nonprofits “break even” as they meet operating expenses and fund programs to fulfill their missions. But it's crucial that you take a broader perspective.

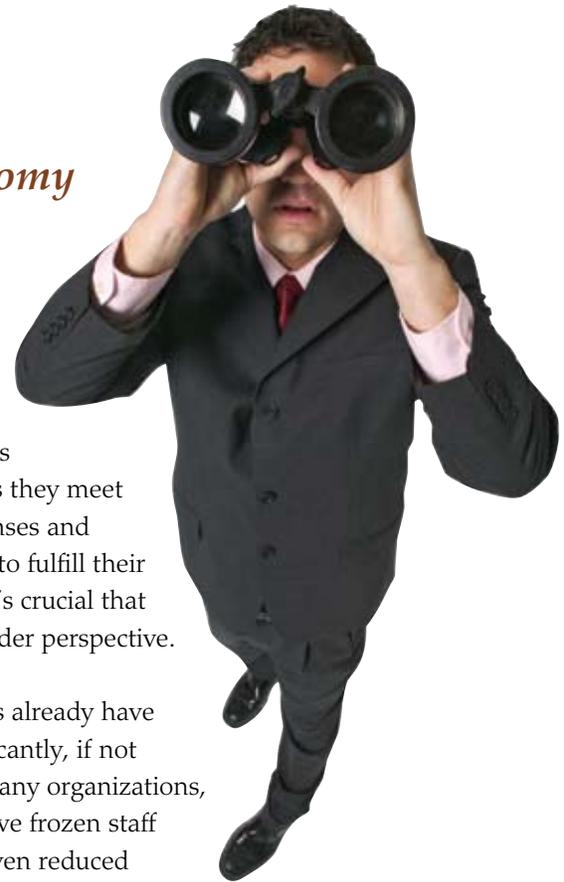
Most nonprofits already have cut costs significantly, if not dramatically. Many organizations, for instance, have frozen staff salaries — or even reduced them — rather than let people go. Others have cut programs that, while desirable, aren't essential to their mission.

If your leadership isn't willing to alter the budget to trim spending, it may be putting your organization in the position of going through its reserves quickly. You shouldn't expect to continue to draw from your reserves simply to keep operating at the same level as you did before the recession.

Rather, you might need to not only cut costs, but revise your budgeting. Consider, for example, creating a two-year budget for weathering the economy along with a contingency plan — a “Plan B” — if results are worse than expected.

LOOKING AHEAD

It would be dangerous to view the current economy as a temporary situation that can be managed just by tapping into your operating reserves. While no one can predict how long the recession will last, the recovery isn't expected to be speedy. A Plan B that identifies additional cuts can enable you to act quickly if the downturn lasts longer than anticipated. *



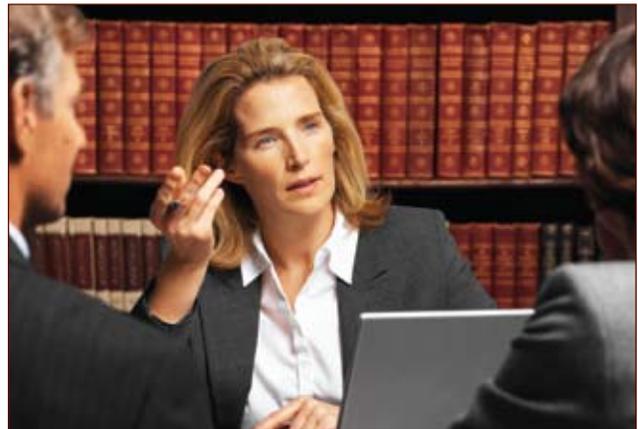
Settlement shines spotlight on donor intent

When the Robertson Foundation filed a lawsuit against Princeton University in 2002 about how the university was spending its gift money, some nonprofits took note. Now, seven years later, with a \$101 million settlement fresh in everyone's mind, all not-for-profit organizations should pay attention.

THE SETTLEMENT IS DEAR

The controversy revolved around claims by the Robertson family that Princeton University inappropriately spent more than \$200 million from a charitable fund established to help the University's Woodrow Wilson School of Public and International Affairs prepare graduate students for U.S. government careers in foreign policy and diplomacy.

Then last December, shortly before the case was scheduled to go to trial, Princeton settled with the



Robertson family, heirs to the A&P grocery fortune. The family's lead lawyer described the settlement as a "historic victory" for the concept of donor intent partly because of the enormous size of the settlement: Princeton agreed to make total payments from the charitable fund of \$50 million to a new foundation plus \$11 million in interest and \$40 million in legal

fees. Princeton will be able to use the rest of the original charitable fund (estimated at \$900 million in June 2008) for its Woodrow Wilson school as it chooses.

As reported in the *New York Times* on Dec. 11, 2008, William Robertson, the donor's son and lead plaintiff in the suit, said the settlement was "a message to nonprofit organizations of all kinds throughout our country that donors expect them to abide by the terms of the designated gifts or suffer the consequences."

NO ISOLATED INCIDENT

A number of similar disputes have erupted over the last several years that highlight a major dilemma for charities: They must act as loyal

GIFT-ACCEPTANCE GUIDELINES

Like all charities, yours should have clear guidelines for accepting gifts, including direction about:

- * Types of assets that can be accepted and the required relevance of the donation's intent to your nonprofit's mission,
- * Ethics related to donor involvement in determining investment policy and use of the funds,
- * Representations made to the donor — for example, that the donor be given a full description of all aspects of any proposed charitable gift plan, and that there be discussion about what happens if circumstances change and the original intent is no longer relevant, and
- * A method or procedure for thinking through the impact of gifts before accepting them.

Once the guidelines are adopted, make sure your full board and staff are familiar with them — and that they don't agree to accept gifts that will create future problems.

The new IRS Form 990 asks if your organization has a gift acceptance policy — another good reason to have one.

stewards of donated funds while maintaining proper authority over them.

Much of the challenge charities encounter is due to vaguely documented contribution arrangements from years earlier. Without strong documentation, it becomes difficult to interpret intent after a donor is no longer around.

Your organization should have a clear understanding of the donor's intent — and documentation that supports it.

Charities also encounter difficulties when donors specify a use for funds. This creates problems when it comes to meeting ordinary operational expenses — in other words, paying the bills. And, on rare occasions, a charity finds itself in a position where a donation has created more revenue than what is required for its intended use. The charity then faces the question of what to do with the excess money while still adhering to the gift's intent.

A DONOR BILL OF RIGHTS

So, how can you reduce the likelihood of conflict over donor intent? First and foremost, your organization should have a clear understanding of the donor's intent — and documentation that supports it.

Second, it's imperative to discuss with the donor the necessity of not creating too narrow a focus for the gift, such as on a particular program that may not be relevant in the future.

You also need to retain the ability to make alterations due to social or cultural change. And make sure, of course, that any restrictions put on the gift aren't illegal (such as discriminatory). This way you'll leave your path to the future unclogged with restrictions and, hopefully, without legal tussles. (See "Gift-acceptance guidelines" on page 3 for more information.)



Third, you should consider adopting a donor bill of rights similar to the one created by a consortium of organizations involved in fundraising, including the Association of Fundraising Professionals. To find this document, visit the AFP Web site (afpnet.org) and click on "Ethics" and "Ethics and donors."

FULFILL YOUR MISSION

Princeton's president has said that the settlement achieved the university's highest priorities in the lawsuit: to ensure that the bulk of the gift will continue to support the Wilson School graduate program and that the university will still have full authority to make academic judgments about how the funds are used.

Nevertheless, most nonprofits can't afford for a donor intent dispute to go this far. So it's critical to put policies and procedures in place to minimize disputes while ensuring you have access to the funds needed for your organization to fulfill its mission. *

Software solutions can be affordable

It may seem harder than ever to budget for computer software that will bring your organization into the next decade. After all, you want to update and expand, take advantage of new features on the market and adequately protect your computer system from outside threats. And all of this costs a lot of money — doesn't it?

Not necessarily. There *is* a way to find effective, inexpensive software solutions. From the comfort of your computer, you can track down low-cost and no-cost options for creating, sharing, backing up and restoring original and PDF files, and protecting your organization from cyber-threats.

CREATIVE LICENSE

Open Office (OO) is a good free alternative to Microsoft Office for creating word processing, spreadsheet and presentation documents. OO can be installed on as many PCs as needed, at work or at home, with no licensing restrictions. Google Docs is also free and requires no installation, since it's Web-based.

The OO download also contains slideshow presentation and even database creation applications. Even better, the application interfaces are familiar to anyone who's used other office software.

PICTURE-PERFECT PDFs

PrimoPDF is a free program that allows you to convert any original file to a PDF (portable document format) file, a compressed file format that can be opened by any PDF application. But it doesn't allow for any PDF manipulation, such as applying security or adding or rearranging pages.

For that type of work, Nitro PDF Express is a relatively low-cost option. Not only can this software create and manipulate PDF files, but it also can add security to them. And it's fully compatible with other PDF applications.

A BACKUP PLAN

Because of possible computer crashes, overwritten or lost files, or any number of other possibilities, being able to back up and restore files is a must. With any organization that frequently operates without consistent IT support, it's important for backups and restores to be easy, reliable and nearly foolproof.

Luckily, there are many options. Of course, files can be backed up to external hard drives, tapes or DVDs. But that calls for buying extra equipment and supplies, having secure offsite storage and retaining the various files for the legally required amounts of time. To avoid buying extra components and using more staff time, online backup and restore is often the way to go.

One such choice is Symantec's Online Backup. This service provides options for how much data to back up (in terms of file size) and how long it should be kept to meet governmental legal requirements (such as one year or seven years). Backups can be scheduled to run anytime, and the data is transmitted and stored with SSL and 256-bit AES encryption so that it won't be compromised as it's sent across the Web.

Backups and restores can be managed from any Internet connection, and the PC requirements to manage these features are basic. Pricing depends on the total space required and the length of retention.



SECURITY NET

The important thing to remember about security is that it's not a question of whether or not you're secure. It's a question of whether you're more secure or less secure. So, you shouldn't rely on a single option. Instead, implement a combination of security methods.

A starting point could be ZoneAlarm Internet Security Suite 2009, which combines antivirus and antispyware protection with identity theft protection and firewall security. It's easy to install and uninstall, it's light on system resources while running, and it plays nicely with other security applications.

While mainly just an antispyware and antivirus application, Sunbelt CounterSpy is an excellent choice for

not-for-profits. It's accurate in terms of spyware detection and removal, it's easy to use and — most important — it's low cost. Meanwhile, Windows Defender is a free antispyware program for use on the Windows operating system. Defender has low impact, scans quickly and offers a limited number of free support calls.

FULL SPEED AHEAD

These are just some of the solutions available. "Finding free and low-cost software" below lists Web sites and pricing for the software discussed here, as well as some additional alternatives. As you can see, good software can be obtained without spending much money — and, in some cases, without spending any at all. So start shopping around, and your nonprofit can enter 2010 without "cyber-embarrassment." *

FINDING FREE AND LOW-COST SOFTWARE

Here's Web site and cost information for the sampling of software discussed in the main article and for some additional alternatives.

PRODUCT	WEB SITE	COST*
File creation		
Open Office	openoffice.org	Free
Google Docs	google.com/google-d-s/b1.html	Free
StarOffice	sun.com/software/staroffice/index.jsp	\$35
PDF creation and manipulation		
Primo PDF	http://primopdf.com	Free
PDF Online	pdfonline.com	Free
Nitro PDF Express	nitropdf.com/express/overview.htm	\$49
Nitro PDF Professional	nitropdf.com/professional/overview.htm	\$99
File backups and restores		
Symantec's Online Backup	symantec.com/business/online-backup	Varies
Iron Mountain	http://ironmountain.com/digital	Call for pricing
Norton Ghost 14.0	symantec.com/norton/ghost	\$70
Jungle Disk	http://jungledisk.com	\$2/mo. + 15¢/GB
Data protection/security		
ZoneAlarm Internet Security Suite 2009	zonealarm.com/store/content/home.jsp	\$50
Sunbelt CounterSpy	sunbeltsoftware.com/Home-Home-Office/Anti-Spyware	\$20
Windows Defender	microsoft.com/windows/products/winfamily/defender/default.mspx	Free
Kaspersky Anti-Virus 2009	http://usa.kaspersky.com/store	\$60
Norton AntiVirus 2009	symantec.com/norton/products/latestproducts.jsp	\$40
File backups/restores and data protection/security		
Norton 360 3.0	symantec.com/norton360	\$80

* Based on information available at press time. Prices rounded to nearest dollar.

Newsbits

FASB ACTIONS CARRY IMPACT

Three recent actions by the Financial Accounting Standards Board (FASB) could affect your nonprofit's financial statement preparation this year and beyond:

FASB Accounting Standards Codification™. Officially launched July 1, the *FASB Accounting Standards Codification™* is an organizational structure (available for a cost online and in print) that is intended to make it far easier to research accounting topics and, thus, mitigate the risk of noncompliance. The Codification, which reorganizes thousands of Generally Accepted Accounting Principles (GAAP) pronouncements into 90 accounting topics, significantly changes the way accounting standards are researched and referenced.

Says FASB Chairman Robert Herz: "The FASB is confident that preparers, auditors and users of financial statements — who for years have had to wade through hundreds of pieces of disparate GAAP literature to resolve an accounting issue — will find the Codification provides a much more efficient, user-friendly method of researching ... solutions."

The Codification is effective for interim and annual periods ending after Sept. 15, 2009. All accounting literature excluded from the Codification will be considered "nonauthoritative," FASB says.

Mergers and acquisitions. Statement of Financial Accounting Standards (SFAS) No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, applies to *mergers* that



take place on or after Dec. 15, 2009. And it pertains to *acquisitions* when the acquisition date is on or after the beginning of the first annual reporting period starting on or after Dec. 15, 2009.

SFAS 164 sets requirements on how to:

- ★ Determine whether a combination is a merger or an acquisition,
- ★ Apply the *carryover method* in accounting for a merger or the *acquisition method* for an acquisition, and
- ★ Determine what information should be disclosed to enable financial statement users to evaluate a merger's or acquisition's financial effects.

The pronouncement also makes SFAS No. 142, *Goodwill and Other Intangible Assets*, fully applicable to nonprofits.

Subsequent events. SFAS No. 165, *Subsequent Events*, sets general standards of accounting for — and disclosure of — events that take place after a balance sheet date but before financial statements are issued. It covers:

1. The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements,
2. The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and
3. The disclosures an entity should make about events or transactions occurring after the balance sheet date.

You must apply SFAS 165 to interim or annual financial periods that *end* after June 15, 2009.

More information on these three developments can be found at FASB.org or through your accounting professional. *