Profitable Solutions *for* Nonprofits

Spring 2013

Are you ready?

3 significant developments in outreach technology

One of the top priorities for nonprofits is engaging with their supporters and building relationships. It's no surprise, then, that interest is surging in technology that can help nonprofits do just that. How can your organization maximize the potential of current technology tools and avoid wasting time with passing fads? Let's look at what's working.

GOING MOBILE

According to the Pew Internet and American Life Project, 45% of American adults had a smartphone as of September 2012, and 25% had a tablet computer (a dramatic jump from only 4% in September 2010). As of April 2012, Pew reports, 55% of adult cell phone owners used the Internet on their phones — almost twice as many as three years earlier. And 31% of the cell Internet users said that they mostly use their phones to go online, as opposed to using a desktop or laptop computer.

With mobile Internet access poised to surpass that of conventional computers in the coming years, some nonprofits are wisely taking steps now to develop mobile websites and apps. Why do you need a mobile-specific website? Imagine a supporter who receives an e-mail call to action on his phone and immediately clicks through to your regular site, only to find that it's difficult to read and use on his phone's small screen. That's a lost opportunity — one that will only multiply as users increasingly rely on phones for their online communications.

Mobile websites and apps provide your supporters with information at their fingertips and allow them to act, including donating, on the go. As with any type of online transaction, of course, it's important to establish strong internal controls to protect users' data and privacy and prevent the fraudulent misappropriation of funds.

LEVERAGING SOCIAL NETWORKS

Mobile websites and apps also can help nonprofits leverage their supporters' social networks. The past few years have taught many organizations the critical role that social networks can play in spreading their missions to wider audiences than ever and attracting new supporters and donors.

Some may have initially scoffed at the idea that Facebook or Twitter could provide real value. But few can argue with the power of social media at this point, particularly for nonprofits. It's an indisputable

ARE YOU MAKING THE MOST OF YOUR TECHNOLOGY INVESTMENTS?

Technology is no different from any other investment — you need to make sure you're getting an adequate return. Yet some not-for-profits fail to take the time to determine whether their technology is paying off and supporting their overall goals. If they consider the question at all, they focus their attention on budget expense, rather than financial metrics that would reflect the organization's gains from its use of technology.

Your financial advisor can help you identify appropriate metrics — such as economic value added (EVA), total cost of ownership (TCO), internal rate of return (IRR) and total economic impact (TEI) — to evaluate your technology investments, and help develop strategies for collecting the necessary data to calculate the metrics. Armed with this information, you can make better, more informed technology decisions going forward, as well as set financial milestones to gauge progress on future technology projects.

fact that people are much more likely to engage with organizations endorsed by friends, families and trusted sources.

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That's one reason why peer-to-peer fundraising has taken off in recent years. Thanks to social media, it's much easier for participants in your 5K race, cycling event or dance-a-thon to drum up financial support for their efforts. By providing social media tools as part of your registration materials, you empower your participants to personalize their pitches and meet or surpass their — and your — fundraising goals. Again, though, you'll need to have proper internal controls in place, such as firewalls, encryption and other protections for credit card data.

Social media also allows nonprofits to easily and cost-effectively participate in back-and-forth, multiparty conversations, rather than just one-way communications. A single posting might elicit numerous enthusiastic responses that can snowball as the posting is passed along by readers with a click of a button.

EXPANDING WEB PRESENCE

Engaging in social media doesn't mean you can afford to neglect your existing website, though. Instead, savvy nonprofits are expanding their Web presence.

Your website visitors should find a simple, secure way to donate, as well as a range of compelling content that will bring them back again and again. Online videos, for example, offer effective, inexpensive opportunities to tell your organization's story and mobilize viewers. Partnering with an experienced Web-design firm to improve your online presence can be an investment with results measuring far greater than the cost.

SINK OR SWIM

The tools listed above are by no means the only technological advances that can pay off for your organization or enhance your outreach efforts. Nonprofits are also turning to cloud computing, social analytics and software that produce solid financial metrics. Such advances are no longer a luxury — they're a matter of survival. If your organization has lagged behind, now is the time to jump into the water. ❃

Nonprofit mergers

When joining forces is the answer

One in 12 respondents to a recent *GuideStar Economic Survey* said they believed their nonprofit was in danger of closing for financial reasons. If your organization is dealing with a lack of either financial or human resources, you need to start looking for solutions — fast. Joining forces with another nonprofit is one strategy to consider. When researched and executed carefully, a merger can make both organizations stronger.

HAVE THE RIGHT REASON

The decision to merge isn't an easy one to make. But if your organization has experienced steady declines in grants and donations, it's worth considering. Duplication and overlap of services may be another valid reason to merge. Bringing organizations together can be a powerful way to build unity, achieve objectives faster and use funding more efficiently.

You also might consider joining with another nonprofit to gain access to a larger skill set. Perhaps another organization has an outstanding and dedicated staff, while you have excellent fundraising skills. Combining forces may enable you and the other nonprofit to provide better services and maximize capabilities.

PINPOINT YOUR GOALS, QUESTION THE TIMING

If you're mulling a merger, think about what you really want to achieve. Develop realistic objectives stated in measurable terms, such as striving for a 25% increase in donations or an expansion of services into an adjacent community.

You also need to assess your readiness to be a partner. Assemble a committee of key managers, board members and advisors to discuss the financial, legal, public relations and other implications of a potential merger. Invite critical outside stakeholders, such as major funders and service recipients, to provide input. If you're going to lose funding because a merged entity would deviate from a major funder's goals, it's better to know before you make your decision.

Consider just how much time and other resources are needed to merge two entities successfully.

In general, nonprofits are better merger candidates when they have stable management — including a strong relationship between the executive director and the board — and a good handle on their strategic challenges. Nonprofits that are growth-oriented, with a history of successful risk-taking, also may be better candidates.

IDENTIFY THE HURDLES

Naturally, nonprofit mergers involve considerable risk of stakeholder resistance as well as internal hurdles. For example, it may be difficult for two organizations to combine their cultures. Out of habit and expectation, staff may oppose efforts to act as a united organization when it comes to everything from the flexibility of work hours to program procedures. Combining information technology systems can be challenging as well.

Funders, program partners and community leaders also may object. Good communication can help alleviate much — but not all — resistance. Legal obstacles are another possibility. Many states have specific procedures that must be followed, particularly if either of the entities owns real estate, and forms that must be filed when nonprofits merge. Further, you may need to get consent from donors to legally transfer gifts or grants.

Finally, consider just how much time and other resources are needed to merge two entities successfully. Depending on the size and complexity of the organizations, a merger can take as long as two years to complete. The process also will involve additional costs, such as for the services of financial consultants and attorneys.

PLAN CAREFULLY

Two organizations becoming one clearly face obstacles. But, if going it alone no longer seems doable, combining resources with another nonprofit may be the answer. Just make sure that your organization's plan to merge is as strong as its desire to succeed. ❋

Managing risks via special events insurance

To raise funds, nonprofits often turn to large-scale special events, which can prove lucrative but also carry significant risks. Proper insurance coverage will help protect your organization from those risks.

SPECIAL EVENT, SPECIAL PLANNING

By definition, a special event typically falls outside of a nonprofit's core functions. As a result, the organization may be uncertain about the many details involved in hosting a successful event. This is particularly true of smaller not-for-profits with limited staff resources or relative inexperience sponsoring events.

Risks associated with special events run the gamut from accidents and personal injury, to fraud and theft, to cancellation due to inclement weather or nonappearance by a featured performer. Securing appropriate insurance coverage should be the first step you take to protect your profits.

APPLICABLE INSURANCE COVERAGE

Today, it's possible to buy designated "special events insurance." These policies provide coverage for lawsuits and claims brought by a third party who suffered a loss connected to the event. Coverage may include liquor liability coverage that protects your nonprofit against postevent calamities, such as an auto accident caused by an event guest driving under the influence.

Special events insurance for a single event generally comes with a high price tag, however. Depending on the specific type of event and your current coverage, it might be more cost-effective to obtain coverage by extending one of the following types of insurance policies rather than dealing with a new and unfamiliar insurer for special events coverage:

Comprehensive/commercial general liability. CGL insurance provides coverage for claims that allege bodily injury or property damage. When necessary, the coverage usually can be extended to members, volunteers, temporary or leased workers, co-sponsor organizations, outside sponsors, board members and landlords.

Directors and officers liability. D&O insurance covers claims arising from the management or governance of the organization and can include coverage for both the members of the board and high-ranking staff.

Product liability. This type of insurance will cover claims arising from injury or loss that results from the malfunction of any products sold or distributed at the special event.

Nonowned/hired automobile liability. You may need this coverage if volunteers or staff will use their own vehicles during the event, or if rented or hired cars, such as limousines, will be used. It covers claims made against the volunteers or staff related to the vehicles' use and arising from the rented or hired cars.

Fidelity. Fidelity bonds guard against the loss of money or property due to the dishonest acts of staff or volunteers.

Weather. Weather insurance provides coverage for losses resulting from weather-related event cancellations. It's particularly important for outdoor events, but not restricted to them.

Nonappearance/cancellation. Some events are built around the appearance of a specific performer or personality. This insurance protects against losses that result when a featured guest fails to appear.

Risks run the gamut from accidents and personal injury, to fraud and theft, to cancellation due to inclement weather or nonappearance by a featured performer.

You probably already have some of this coverage under your current policies, but check with your insurer to ensure that the special event will be covered — and, if not, whether you could pay a one-time additional premium for protection. In addition to obtaining the relevant coverage above, you should consider adding policy amendments to broaden the coverage and extend it to additional insureds who may not otherwise be covered.

BEFORE YOUR NEXT EVENT

Whether it's your first special event or the "25th annual," conduct a pre-event assessment to identify any potential exposures. While you can't eliminate every risk, your financial advisor can help you secure the appropriate insurance to limit any adverse financial effects. ❋

Newsbits

STUDY EXAMINES POLITICAL LEANINGS AND DONOR BEHAVIOR

Contrary to conventional wisdom, conservatives and liberals are equally generous in their donation habits, though they do support different causes, according to a Massachusetts Institute of Technology study, "Who Really Gives? Partisanship and Charitable Giving in the United States." Liberals are much more likely to donate to secular organizations and conservatives give a greater percentage to religious causes, especially their own congregation.

Additionally, charitable contributions fluctuate based on the political landscape. Individuals in Democratic states donate less money to small nonprofits when a Republican occupies the White House and vice versa. Conversely, having a president of the same party increases the average and total donations to nonprofits at a state level. ❋

ACCOUNTING GROUP ADDRESSES CASH RECEIPTS

Accounting Standards Update (ASU) 2012-05, from the Financial Accounting Standards Board (FASB), addresses the diversity of nonprofit practices for classifying cash receipts from the sale of certain donated financial assets (including securities) in their statement of cash flows. According to FASB, some nonprofits classify the cash receipts as investing cash inflows, while others classify the receipts as either operating cash inflows or financing cash inflows.

Under the new requirements, nonprofits must classify the cash receipts from the sale of donated financial assets in the same manner as cash donations received if the assets were nearly immediately converted to cash, without any nonprofit-imposed limitations on the sale. In other words, such cash receipts should be classified as cash inflows from operating activities — unless the donor restricted the use of the contribution for long-term purposes.

In that case, the cash receipts should be classified as cash flows from financing activities. If the donated financial assets aren't nearly immediately converted to cash, but rather held as investments for a period of time, cash receipts from their eventual sale should be classified as cash flows from investing activities at the time of sale.

The new standard is effective for fiscal years — and for interim periods within those fiscal years — beginning after June 15, 2013. ❋

MULTIYEAR FOUNDATION GRANTS DROP SHARPLY

A new National Committee for Responsive Philanthropy analysis of grants by more than 1,400 foundations from 2004 to 2010 suggests that multiyear grants are difficult to land and likely to remain scarce in the foreseeable future. The study found that multiyear grants to charities dropped by $2.2 billion, or 32%, from 2008 to 2010. In 2009 alone, reported multiyear grantmaking declined 21% to $5.5 billion from its $6.9 billion peak in 2008. If the nation's largest grantmaker, the Bill and Melinda Gates Foundation, were excluded, reported grantmaking from 2008 to 2009 would have decreased by more than 33%. ❋