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ACCOUNTANTS & ADVISORS

NONPROFIT AGENDAS - JULY, 2016

PROTECT YOUR FUTURE WITH SOLID OPERATING RESERVES

Operating reserves aren't a luxury — they're a necessity for financially savvy nonprofits. Organizations without adequate operating reserves leave themselves vulnerable to financial instability that can inhibit programs from being administered and prevent them from fulfilling their mission.

A recent report from the Nonprofit Finance Fund (the "Fund"), a community development financial institution, indicates that operating without an adequate financial cushion is fairly widespread among not-for-profits. The Fund's 2015 State of the Nonprofit Sector Survey results showed that 53% of nonprofits responding had less than three months of cash on hand and 12% had less than 30 days' cash in reserve

What reserves are — and aren't

Operating reserves can be defined as the portion of unrestricted net assets that nonprofits designate for use in emergencies or to sustain financial operations in the unanticipated event of significant unbudgeted increases in operating expenses or losses in operating revenues. Reserves should be liquid, or easily converted to cash, so the organization isn't forced to sell long-term investments, take out a loan or pursue other undesirable alternatives to quickly generate funds.

Also remember that cash on hand isn't the same thing as operating reserves. Cash can be restricted for specific purposes while operating reserves must be available to be spent on current operations.

Operating reserves also shouldn't be confused with donor-restricted endowments. Only the income on these endowments is available to be spent (based on the donor's wishes), with the principal portion held to perpetuity and, thus, unavailable for daily operations.

Why you need reserves

Remember the last recession? The years following the financial crisis of 2008 were challenging for many nonprofits, with plummeting revenues that led to painful cuts in staffing and programs — despite, at

times, an increased demand for services. Some nonprofits shut down altogether. When a turbulent economy reduces revenues to a trickle, operating reserves can help organizations survive.

Healthy reserves also will allow your organization to seize opportunities that require a cash outlay (for example, purchasing a building), set aside funds for long-term goals and plans, and cover unexpected expenses after a natural disaster or other emergency. Reserves also can prove valuable when you need to augment your staff and deliver services under federal contracts that won't provide payment for 30 to 60 days.

What if you run into skeptics on the board when it comes to keeping sufficient reserves? Consider running a "table-top exercise" with the directors and upper management. Instruct the participants to formulate a strategy for a scenario in which the organization experiences a payment delay — how will it pay its bills and meet its contractual obligations?

How much to set aside as reserves

The Nonprofit Operating Reserves Initiative Workgroup, an all-volunteer group of nonprofit leaders, financial management consultants and others, suggests nonprofits consider several issues when setting a dollar goal for their reserves:

- Are your revenue sources subject to large unexpected negative fluctuations?
- Are your resources subject to sudden increases in demand?
- Are your income and expenses subject to significant day-to-day fluctuations?
- Have your planning and budgeting processes been historically accurate in forecasting financial results?
- Are adequate backup funding resources likely to be available?
- Is the governing body trying to expand the organization?

The Workgroup advises organizations to maintain a minimum reserve level of 25% of the annual expense budget, enough to cover three months' expenditures.

Others suggest that a sensible target might be the average gap between revenues and expenses. Under this guideline, organizations with more volatile revenue or spending would require greater operating reserves. Financial advisors typically say the ideal amount for most nonprofits is six months of cash expenditures. Ultimately, the right amount for your organization will depend on its particular circumstances — no single standard applies to all.

A critical layer of protection

Operating reserves add another layer of essential insurance when you run into revenue shortfalls that could threaten your sustainability. Building reserves greatly improves your organization's odds of continued existence.

Sidebar: How to develop a formal reserve policy

When a nonprofit decides to build operating reserves, it needs to decide more than just the goal amount. That's where a formal reserve policy comes in.

If you're in the process of instituting reserves, you should develop a clear written policy that addresses the following issues:

• The goal amount of reserve funds (realizing that it might take some time to accumulate),

• The source(s) of reserve funds — for example, unexpected and unrestricted donations, unbudgeted revenues or cash generated by operations,

• How the reserves will be invested,

• The definition of circumstances and process that will trigger the use of reserve funds,

• The process and timeframe for repayment of reserve funds used, and

• Whether to impose any additional directions, restrictions or limitations on the use of reserve funds.

Once you've established a policy, review it regularly to ensure that it continues to reflect your circumstances, and make changes as appropriate.

ANY WAY YOU SLICE IT

How to put email list segmentation to work for you

Most nonprofits have growing lists of email addresses for donors, members, volunteers and other supporters or potential supporters. Many of these organizations fail to make the most of their lists, though. Instead of segmenting them, they send all of their communications — donation requests, newsletters, meeting announcements, legislative updates — to everyone. Email segmentation can help you increase the effectiveness of each communication by getting the right messages to the right people.

Benefits of segmentation

It's difficult to admit sometimes, but not everyone is interested in everything your organization has to say — and too many irrelevant contacts can make people tune out or unsubscribe. That's just one of many reasons to think about segmenting your email list and sending particular emails to only specific slices of the list.

Segmentation can even increase your response rates and strengthen engagement. You'll likely see higher open and click-through rates. One email marketing company recently sampled 2,000 users who sent about 11,000 segmented campaigns and compared the results with the same users' non-segmented campaigns. It found the "opens" for the segmented campaigns were almost 15% higher than for non-segmented, and "clicks" were 59% higher.

Using a segmented approach, the recipients will get more information they value and less that doesn't interest them, fostering greater trust in your organization and the relevance of your communications. And segmentation lets you experiment with different tones, writing styles, subject lines and visual presentations to determine which work best. You may learn that different groups respond differently based on the message.

Of course, the benefits of segmentation require effective email messaging to begin with. To get the most bang for the buck, organizations need to think not just about content but also about presentation. With recipients reading emails on a variety of devices these days, nonprofits also should ensure their messages are optimized for reading on mobile devices and tablets, as well as desktop computers.

Potential segments

Every organization's email list is unique, of course, but nonprofits often have some simple segments they can use to begin tailoring their emails. For example, a nonprofit can segment its list by age, gender, location, income or similar trait. If you don't already possess this information, though, gathering the demographic information can prove delicate — be careful not to turn off potential donors or members with your inquiries.

You also could segment your list on the basis of past actions. For example, you can track activities such as event attendance, volunteer work, donations or membership renewal. You might further narrow the segment by setting a date parameter (for instance, activity within the past year) or, in the case of donations, creating subgroups based on donation amounts or specific campaigns. "Super donors" whose giving exceeds a certain threshold, "super attendees" who attend a specified number of events in

a year and "super volunteers" who donate a certain number of hours in a year might receive every email, while others receive fewer.

Interests present another opportunity for segmentation. When you obtain new supporters, members, newsletter subscribers or other additions to your email list, you can send them targeted emails early on and monitor whether and how they respond. Track the pages on your website that visitors check out before they move to action-oriented pages, such as those for event registrations or donations. You also can track open-and-click activity to see how recipients responded to previous emails. Then use that information to segment by interest.

A valuable resource ripe for the taking

Properly leveraged, your organization's email list is one of its most valuable assets. Carving your list into segments can empower you to craft more personalized and effective communications that help build loyalty and achieve your goals.

PERFORMANCE MEASUREMENT

"Super metrics" can win the day

Everyone, it might seem, wants to know how effectively your nonprofit is fulfilling its mission and running its operation. Performance, or outcome, measurement — essentially a way to determine the impact of a program or activity — can supply interested onlookers with the proof they need to know you're doing your job. Unlike traditional measures, such as number of clients served or amount of donations received, these "super metrics" allow an organization to assess whether a program is achieving its intended results.

Defining the terms

An "outcome" is generally described as a specific desirable result or the impact of a nonprofit's services. Outcome measures should gauge the level of accomplishment of a program goal in terms of changes in the lives of individuals, families or the community at large. For example, a program designed to help return unemployed mothers to work by improving their job-seeking abilities might measure the number of job interview requests these women get compared to how many resumés they send out.

Bear in mind, though, that outcome measurement won't prove that the results — good or bad — are due solely to your efforts.

An outcome measurement program requires an organization to identify appropriate outcomes and indicators of those outcomes. It also involves the collection of data relevant to the indicators (for

example, by client surveys or interviews with program dropouts) and the analysis of that data. And, of course, the organization must take appropriate action based on those findings.

Deciding to measure results, anyway

Some nonprofits have no choice when it comes to outcome measurement — grant makers or other stakeholders might require it. But even organizations free of such demands should consider engaging in the process because of its many benefits.

Outcome measurement can act as a check for board members, staff and volunteers that the nonprofit is successfully working toward meeting its mission and goals. A side benefit: Measuring and reporting outcomes can shift the focus away from how resources are being allocated, such as the percentage of funds spent on "program-related activities." Achieving sustainable success may include investing in such non-program-related activities as training, leadership development and strengthening internal controls.

The results of outcome measurement should be shared with existing and potential stakeholders to show the impact of the organization's programs and activities and, in turn, support marketing and fundraising efforts. The results also can prove helpful with short- and long-term planning — it becomes easier to identify effective programs and activities, as well as those that need improvement when you have hard metrics.

Understanding limitations

Outcomes need to be measured on an ongoing basis. Rather than examining client effect or other conditions only shortly after the completion of service, a nonprofit also should return to evaluate the effects at some point down the road.

Additionally, you won't be able to measure every important outcome immediately. Some outcomes take years to materialize. In such cases, a nonprofit might be able to identify milestones to measure progress against as time goes by. So-called "soft" outcomes — for example, stronger relationships between teachers and parents — can be difficult to measure but still merit regular consideration.

Finally, while outcome measurement can be helpful for planning, organizations should remember that it's backward-looking. Budgeting, policymaking and other long-range planning decisions, on the other hand, are about the future, and conditions might be different then.

Prove it!

Stakeholders today often scrutinize a nonprofit's outcomes to see if it is performing the way it says it is. Super metrics provide a way to substantiate your impact.

Abstract: This issue's "News for Nonprofits" spotlights the new six-month extension for Form 990, an EEOC proposal to deter employer retaliation under federal employment discrimination laws, GuideStar's revamped nonprofit profiles, and YouTube's "donation cards" for those who create videos on its site. can empower you to craft more personalized and effective communications that help build loyalty and achieve your goals.

NEWS FOR NONPROFITS

Six-month Form 990 extension soon to be a reality

Nonprofits have received some welcome tax news from an unlikely source — the federal highway funding bill. The Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 modifies several due dates for tax returns, including the Form 990 annual information returns.

Currently, nonprofits can obtain a three-month automatic extension for the form by filing Form 8868 before the original due date (the 15th day of the fifth month after the end of your nonprofit's accounting period). For an additional (not automatic) three-month extension, though, an organization must file Form 8868 again and include an explanation of its "reasonable cause" for — or why it deserves — an extension. Beginning with the 2016 returns filed in 2017, the IRS will automatically grant a six-month extension when a not-for-profit submits a timely Form 8868.

EEOC considers expanding retaliation protections

The US Equal Employment Opportunity Commission (EEOC) recently released proposed guidance addressing retaliation under federal employment discrimination laws. Retaliation, the most frequently alleged type of charge filed with the EEOC, accounted for nearly 43% of 2014 charges against private employers. The guidance, which would include nonprofits, expands the scope of employee activity protected from employer retaliation. It also expands the definition of "adverse employment action" that would constitute retaliation to include reprimands, threats, undesirable transfers or work assignments, and negative evaluations.

GuideStar launches revamped nonprofit profiles

The nonprofit profiles on GuideStar have undergone a major redesign to present key performance data in a more user-friendly format. The new profiles emphasize programs and results, along with financial and organizational metrics to facilitate easy comparison. The profiles now include interactive data displays, and the traditional pie charts depicting overhead costs have been replaced with liquidity ratios and figures showing the organization's months of cash on hand. GuideStar says the new features make it easier for users to understand multiyear trends in an organization's financial performance, stability, revenue model and grant support.

YouTube adds donation option

YouTube has begun rolling out free digital "donation cards" to US-based users who create videos on the site. Viewers of videos with the cards can use credit cards to make online donations directly to designated nonprofits. The video creator (whether a nonprofit or just a supporter or fan of the organization) simply adds a donation card to the video and picks a nonprofit. Creators can choose any US 501(c)(3) public nonprofit, and the designated organization will receive 100% of the money donated. YouTube's parent company Google covers the processing costs and will provide donors with receipts for tax purposes..

PARTNER PROFILE

Joseph J. Kanjamala, CPA, CGMA

Joseph (Joe) Kanjamala is a Partner with Marks Paneth's Nonprofit and Government Group. His responsibilities in this role include designing audit strategies, supervising and training staff, liaising with clients, and providing oversight to ensure that audits are conducted in a timely and cost-effective fashion. In his more than 20 years of public accounting experience, Joe has developed deep skills in serving nonprofit organizations and has served numerous charitable organizations, private foundations and educational institutions.

In his off hours, Joe donates his time and expertise to the Syro Malabar Catholic Congress – where he is a former National General Secretary and current board member. Based in Chicago, this national nonprofit organization conducts youth education, leadership and career-development activities throughout the United States. He is also former Finance and Long-term Planning Committee Chairman and a current parish council member at Saint Thomas Syro Malabar Catholic Church in New York. He serves as a pastoral council member at Syro Malabar Catholic Diocese of Chicago.

When not working on client-related matters, Joe undertakes charitable and voluntary work through the Society of Saint Vincent De Paul. He enjoys watching soccer and cricket games – and is a fan of FC Barcelona.

Joe resides with his family in White Plains, New York.

LEVERAGE OUR EXPERTISE

Marks Paneth LLP is the 35th largest accounting firm in the US and 9th largest in the mid-Atlantic region. We have a long history of serving the not-for-profit community. Today, we work with more than 150 tax-exempt clients and proudly serve 20% of New York's 25 largest charitable organizations, as ranked by Crain's New York Business. Our firm is ranked in the top 1% nationally in pension plan audits and is the 8th largest preparer of Form 990 PFs in the US. Our Nonprofit and Government Group consists of approximately 45 people in New York and Washington DC, including our six Partners and four Directors listed below. If you have questions, please contact one of us. More information can also be found at markspaneth.com.

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