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Nonprofit Insights

A Newsletter for Nonprofit Decision Makers Summer 2019

Financial Management

The Benefits of Outsourced Accounting

Nonprofit organizations run on notoriously lean budgets. Every dollar spent on administrative needs is a dollar not spent on organizational mission.

With this frugality in mind, it's no wonder that nonprofit organizations often "go without," encouraging everyone to work a little harder and smarter. But this attitude can overtax staff and create inefficiencies. Moreover, nonprofit organizations often reach a point when a lack of knowledge, expertise, or time can result in poor financial decisions or outcomes.

Accounting and bookkeeping are among the most important functions in nonprofit organizations, but they are also among the most overlooked when there is availability to add staff.

The good news is that these functions are also among the easiest to outsource. Outsourcing your accounting and bookkeeping functions can be a seamless and cost-effective way to access professional-level services on an as-needed basis.

Why Outsource?

There are five essential reasons a nonprofit organization should consider outsourcing accounting, bookkeeping, or other financial functions:

1. Cost: Hiring additional employees is expensive. You must consider a salary or hourly wage, time to recruit, hire, onboard, and manage new employees, plus cover their taxes, benefits, and hardware and software licenses. Outsourcing can mitigate these costs.

2. Expertise: While you might find experts to staff various financial positions, it's likely an outsourced accounting team will have greater depth and breadth. Working with professionals eliminates the learning curve.

3. Improved processes: Outside specialists bring best practices to even the smallest nonprofit organizations. Rigorous processes and controls make accounting and bookkeeping consistent and repeatable. Plus, certain financial functions—especially forecasting and budgeting—benefit from seasoned input.

4. Better risk management: Occupational fraud is a serious concern for nonprofit organizations. Segregation of duties can be easier with an outsider involved to keep authorization, record keeping, and custody of assets separate.

5. Better reporting: Outsourced personnel have no excuse for late filing or inadequate reporting. You'll get actionable data on time and in the right format consistently.

When considering outsourcing, remember that it doesn't need to be all or nothing. You might have capable staff who can do the daily bookkeeping and only need to outsource your more strategic functions.

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Word to the Wise

Disaster Recovery Planning: Expect the Unexpected

Floods, fires, hurricanes, earth-quakes, tornadoes. You never think the worst will happen to your community. But bad things happen everywhere, and smart organizations know they need to plan ahead.

What's the state of your disaster recovery plan? There's no time like the present to assess—or reassess—your needs.

Be Aware

Disasters come in many forms, but damage to facilities is relatively common. What will you do if your workplace is destroyed or significantly impacted by a fire, flood, storm, or other natural disaster?

Meet with your insurance advisor to determine exactly what your policies cover. Be sure you understand deductibles, limits, and waiting periods.

For example, what will your property insurance pay to repair or replace equipment? Do you have business interruption insurance to cover loss of income plus expenses? Will your insurance pay for you to temporarily relocate?

If your physical space is crucial to your mission, how can you continue to provide services without the use of your building? If vehicles owned by the organization are destroyed, can you quickly rent or buy new ones?

Also consider your liability coverage: What is your organization's responsibility for bodily injury, property damage, or medical payments? If a burst pipe in your office floods the company downstairs or causes an unsafe situation, will your insurance pay for remediation?

Your insurance advisor can weigh in on how to structure policies to get the coverage you need at the best price. Being aware of coverage details—and gaps—will help you create a thorough disaster recovery plan.

Be Proactive

The best defense is a good offense, so be proactive about your options. Create a team from your various departments to brainstorm problems and solutions. For example, where will your employees work if the office is inaccessible? Do you have a work-at-home plan in place for remote network access? Is there nearby space you can take over in case of emergency?

Be prepared to communicate your logistics plan from an offsite location. This means you need an up-to-date contact list for all employees and directors, key vendors, and other interested parties.

The cloud has made it easy and cost effective to store and back up data and files. Cloud backup is safe, secure, and redundant and should be part of your normal operating procedures.

However, getting your files in the cloud is just part of the plan. Making digital files easy to find is an important step in disaster recovery and has the added benefit of letting staff and stakeholders find documents independently. Adopt a common file naming and storing convention so that staff can share and update information directly.

Keep in mind that you might have important documents that only exist on paper, such as a business license, IRS determination letter, or other files. If so, create and store electronic copies.

Be Decisive

In case of emergency, you want to follow your recovery plan without much thought. To remove guesswork and extra discussion, determine who will manage various tasks up front.

For example, assign a specific person to be the insurance liaison, the organizational spokesperson, the staff coordinator, the repair or construction interface, the constituent services connection, and so on. This way, everyone knows his or her job and can dive in without hesitation.

Of course, plans are only plans, and what you want is effective action in the event of a disaster. Regularly test and practice your plan to ensure that your contingencies are workable.

Our team can help you vet your disaster recovery plan. Contact us today to discuss next steps.

New Reporting Standards Clarified

In 2016, the Financial Accounting Standards Board (FASB) issued new rules for nonprofit organizations, "Presentation of Financial Statements for Not-for-Profit Entities." These new rules, effective for organizations with calendar year 2018 and fiscal year 2019 year ends, were the first significant changes for nonprofit financial statements in 25 years.

In June 2018, the FASB released a clarification to the 2016 rules regarding contributions of cash and other assets received by nonprofit organizations. With this clarification in place, nonprofit organizations have more guidance about the key changes required for the presentation of their financial statements.

The new rules apply to nonprofits that are required by statute to have audited financial statements. Depending on your year-end date, your organization may have already implemented these changes.

Here are the three most significant changes included in the new rules: redefining net assets, clarifying liquidity disclosures, and presentation of expenses.

Restricted and Unrestricted Net Assets

The treatment of net assets has been a source of confusion for years. The new rules moved from three net asset classes: unrestricted, temporarily restricted, and permanently restricted, to just two—net assets with donor restrictions and net assets without donor restrictions.

The biggest impact in this area relates to documentation and donation tracking, following donor restrictions about how contributions can be spent. The most significant accounting change happens at year's end when net assets must be presented on the financial statements as with or without donor restrictions.

Liquidity Disclosures and Measures

Liquidity is a measure of how easily your organization can meet ongoing operational expenses within the standard accounting period—one year from the balance sheet date.

The new rules require a quantitative display of liquidity, as well as a qualitative explanation of methodology. Qualitative information describes whether an asset is limited by the nature of the asset itself, by externally imposed limits, bylaws or contracts, or by internal limits imposed by the governing board, as well as how the organization handles its liquidity.

Presenting Functional Expenses

This new requirement relates to how much detail a nonprofit organization must provide about its expenses. The standard requires that expenses not only be broken out by functional categories, such as program services, administrative, and fundraising, but also by line item, such as salaries, rent, mortgage interest, travel, and so on. (Some nonprofit organizations were already required to present this information.)

Because this area of the financial statement can be used—or misused—to show the cost of advancing the organization's mission, it's important to break down the nature of functional expenses to support clearer understanding by stakeholders.

For example, breaking out each program from under the general functional expense report to show the true program cost can better tell the story of the overall mission. Of course, this means you must be able to accurately track, prepare, and present this information to support the mission.

The new standards also include guidance on a number of other topics, including endowments. Consider asking your CPA to explain the strategic impact of these changes to your board.

If you or your board have any questions about accounting standards, we will be happy to answer them.

Considering Outsourced Accounting?

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When's the Right Time?

Outsourcing your accounting and bookkeeping functions makes sense at different times for different organizations. For example, when launching a new organization, good counsel from outside experts can help ensure continued success.

As your organization grows, your accounting and reporting demands will grow as well. If your staff is spending too much time learning about new reporting requirements or responding to financial requests from stakeholders, it might be time to get outside help.

Similarly, as you grow, your stakeholders will demand more sophisticated processes to manage the organization and find efficiencies. You'll need to properly apply accounting principles and get solid insights to make sound, data-driven decisions. Outsourcing brings this expertise to your door.

Finally, outsourced accounting and bookkeeping may make sense in times of change. Or, if you're upgrading or replacing your accounting system or making budget changes, you might improve results by having an expert step in.

Nonprofit organizations have different accounting and reporting requirements than for-profits. Getting the right expertise at the right time can make a difference in how your organization fulfills its mission.

Our goal is to provide the highest quality tax, accounting and consulting services for our clients.

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Is an Online Marketing Consultant in Your Future?

Competition for resources, donors, and volunteers is greater than ever. Social media and online marketing create excellent opportunities to connect, but they also create new forms of competition. Online, your organization is likely to be competing for clicks against another worthy cause.

Consider your current branding and marketing strategy. Is your story clear? Does it resonate with your various constituencies to create loyalty and engagement? Is it attracting those who are newly interested in your mission?

Your brand must work hard, especially given the innumerable online marketing messages battling for consideration. If your brand and message are unclear or outdated, consider refreshing your approach.

Many organizations turn to specialty marketing or consulting agencies or experts for assistance. Outside help is desirable because those inside the organization can be too close to the mission to have objectivity about brand effectiveness. Getting third-party input can be enlightening.

Finding the right online marketing consultant is a must. Look for someone who understands the specific marketing needs of nonprofit organizations and is highly experienced in digital channels.

The engagement will likely start with an audit of your current efforts—your website, search engine optimization (SEO), social media plan, and return on marketing investment (ROMI). This step might also involve focus groups and other research to elicit feedback from various target audiences.

Once you establish these benchmarks, you can adjust or even relaunch your online efforts to be more targeted and effective.

This might involve an overhaul or merely a few tweaks, depending on what you learn from your audit and research. Of course, a refreshed brand demands a rollout plan, so you'll need to include that in your budget.

Nonprofit organizations can't afford to be complacent. Be sure your online presence is up to date so that your important message gets through.