



EXCERPTS OF RECENT MEDIA COVERAGE

NONPROFIT AND EDUCATION PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q4 2013

► AFP eWIRE

ASSESS YOUR YEAR-END APPEALS—ARE YOU DOING THEM RIGHT?

By Nikki Cagle

At this point in the year you have likely already gone out with your year-end appeals and are in the midst of follow-ups, and hopefully, collecting and calculating donations. As you are knee-deep in appeal-season, it's the perfect time to take a step back and assess your appeals to make sure you're doing them the right way—it's never too late to implement best practices. If nothing else, you'll be well on your way to more successful appeals in 2014!



Laurie De Armond, the leader of the Education and Nonprofit Industry Group at BDO, is responsible for helping to direct the strategy and thought leadership

for the industry group. She lends some insight on how to do year-end appeals right, and tasks you with evaluating your appeals as they stand today. To help you assess your year-end appeals and further enhance your position to your donors, you should ask yourself these questions...

De Armond finds that there is a big push right now for nonprofits to report their program results and she recognizes that for some, it may be difficult. "Some nonprofits don't have the infrastructure to record their impact," recognizes De Armond...

Overhead transparency is an ongoing question that the industry is wrestling with. "Overhead numbers are valuable, but it's only one data point," says De Armond. "Donors are increasingly considering the totality of the information that's out there about the nonprofit—they're not just relying upon one or two statistics to inform their decision."

Sometimes a picture gets painted of a nonprofit showing that they are irresponsible because they spend too much on overhead, but that is a misconceived evaluation of the nonprofit. In order to safeguard assets you have to have overhead. "The overhead ratio is one of the factors that should be considered, but numbers only tell part of the picture," says De Armond...

Unfortunately, impact is not a one-size-fits-all measurement—it is very unique to each organization. That's why it's so hard for a donor to compare one nonprofit's impact to another—it can be like comparing apples to oranges.



For 100 years, BDO has provided services to the nonprofit community. Through decades of working in this sector, we have developed a significant capability and fluency in the general and specific business issues that may face these organizations. With more than 2,000 clients in the nonprofit sector, BDO's team of professionals offers the hands-on experience and technical skill to serve the distinctive needs of our nonprofit clients – and help them fulfill their missions. We supplement our technical approach by analyzing and advising our clients on the many elements of running a successful nonprofit organization.

In addition, BDO's Institute for Nonprofit Excellence (the Institute) has the skills and knowledge to provide high quality services and address the needs of the nation's nonprofit sector.

► **NONPROFIT QUARTERLY**

MY APPLICATION FOR TAX EXEMPTION WAS SUBMITTED TO THE IRS. WHY IS IT TAKING SO LONG?

By **Paul Hammerschmidt**



If you've recently submitted an application to the IRS for recognition of tax exemption, you've likely noticed that there are huge delays. Though you may still have to wait for your organization's determination letter, understanding the reasons behind these holdups can help you navigate the setbacks and, in some cases, speed up the process...

It's generally in an organization's best interest to apply early for recognition of tax-exempt status under Section 501(c)(3). Understandably, many donors are reluctant to make contributions (especially large ones) to organizations without an IRS determination letter. Contributions from private foundations (PFs) and donor advised funds (DAFs) are subject to rules that prohibit taxable expenditures and grants to organizations that are not classified as public charities under 501(c)(3). Such grants count as taxable expenditures unless the grantor exercises expenditure responsibility over those grants. Typically, PFs and DAFs do not want this responsibility...

A Perfect Storm

Overall, the recent and significant delays in processing exemption applications at the IRS are a perfect storm, in that they can be attributed to a combination of the following factors...

- Automatic Revocation of Exemption under Pension Protection Act...
- IRS Scrutiny of Self-Declared 501(c)(4), (5) and (6) Organizations...
- IRS Resignations, Dismissals, and Staffing Shortages...
- The IRS's Self-Certification Process...

Looking Ahead

It may be too early to tell if these IRS actions are substantive and whether they will substantially reduce the amount of time it takes them to review exemption applications. Marcus Owens, former head of the IRS's Exempt Organizations division, didn't appear to be optimistic when he commented, "It's outrageous that the IRS is so dysfunctional in processing applications." He attributed the delays to staffing shortages, as well as the lack of a plan for resolving hard technical issues raised by the applications. Owens said that the process is slowing down even more now, due to management shake-ups over the scandal involving the handling of conservative groups. As a result of the fallout, senior management of the exempt unit at the IRS was replaced with people who have no familiarity with the area.

In other words, things may be improving, but not quickly.

► **FEDERAL GRANTS & CONTRACTS**

SHUTDOWN MAY BE OVER, BUT SEQUESTER REMAINS

By Kelly Sullivan

More than a month has passed since the federal government shut its doors, sending its employees home, and leaving businesses and nonprofits with grants and



contracts to plan how to cover any reductions in their revenue, but **Eric Sobota, managing director for government contract advisory services at BDO USA**, said there

is a far bigger issue that has yet to be addressed than the federal shutdown.

"Government agencies are up and running and trying to catch up on their backlog of work, but I don't think many are currently focused on the [budget] sequester still to come," said Sobota, in a recent interview with Federal Grants and Contracts. "Even though professional organizations like the National Defense Industrial Association (NDIA) and the Professional Services

Council (PSC) are lobbying the Hill, it's my understanding that funding cuts are still to come for all agencies, and non-defense agencies have not been a focal point."

Sobota said Republicans actually won with the continuing resolution that ended the shutdown, because the sequestration cuts remained intact. These cuts will affect every federal agency, such as the U.S. Agency for International Development (USAID), the Department of Health and Human Services (HHS) and the Department of Defense (DOD), he said...

Businesses and nonprofits need to understand what's coming down the pipeline and prepare for reductions in revenue, Sobota said. For example, most organizations have a contract lifecycle of two years, and if they aren't sure what funding is available for next year, they can't assume the funding will be there, he said.

"The government shutdown was here and is gone; most weathered the storm because they were smart enough to implement tactics to make it through the 16 days," Sobota said. "But eventually the music is going to stop and there won't be enough chairs for everyone. At the end of the day, when they passed the continuing resolution, they passed the spending with the sequester, so it's here to stay unless something dramatic happens with the budget negotiations."

► **CCH TAX EXEMPT ADVISOR**

WANT YOUR NONPROFIT TO BE JUDGED ON MORE THAN YOUR OVERHEAD RATIO? LET YOUR DONORS KNOW YOUR IMPACT

By **Laurie Arena De Armond**

The recent launch of The Overhead Myth campaign, a joint campaign led by GuideStar, Charity Navigator and the Better Business Bureau Wise Giving Alliance, has individuals taking sides in the debate over whether the amount an organization spends on overhead determines how worthy that organization is of receiving donor contributions. The overhead ratio, or

the ratio of overhead expenses to program service expenses, has long been considered one of the measures of how efficient and responsible an organization is with the money it receives, and whether it is really doing all it can do to further its charitable purpose...

Overhead expenses generally include an organization's management and general or administrative expenses, as well as fundraising costs. Overhead expenses vary, but they cover things such as rent, utilities, computer software and hardware, recruiting and training. Most would not disagree that good governance, sound financial controls and policies and procedures that ensure an organization is complying with laws and regulations are all necessary for a nonprofit to be successful. These things are the foundation on which strong programs are built. The difficulty is that the determination of what is a "reasonable" amount of overhead is largely a matter of opinion and perception.

This, coupled with differences in the size and missions of organizations that make up the nonprofit industry and the subjective cost allocation methodologies allowed by existing generally accepted accounting policies, makes 'one size fits all' comparisons of nonprofit organizations impossible. If an organization truly wants to connect with donors, it needs to clearly communicate its impact...

Whether or not you have a clearly-defined mission statement, most organizations can articulate in relatively simple, high-level

terms what they want to achieve. Start by determining what success looks like for your organization. What is the cause that you are trying to help?...

Determine how to measure success.

Now that you have identified the key strategies that you are employing to accomplish your mission, you need to determine what the measures of your success are for each area. These will be the statistics that you need to track in order to report your impact for each program. In the example above, you will likely want to report to donors the amount of money that you have provided for research. But you will also want to report whether the research has led to any new treatment options or information that might lead to a cure...

Report results.

As a nonprofit executive, you should know these ratios and be able to explain how the amounts the organization spends on overhead provide a strong foundation for your mission. If feasible, you should benchmark your organization against similar organizations.

Finally, be candid and transparent about how the organization's money is spent and the impact that the organization has. As a donor, I look to ratios to inform my decision about which organizations to contribute to, but ultimately give to organizations that can articulate the impact that they are having on the causes that I care about.

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