BDO KNOWLEDGE
Webinar Series

Moving Forward in 2018
Top Issues for Nonprofits This Year

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LEARNING OBJECTIVES

We will cover:

- What key issues will come into play for nonprofit organizations this year
- Best practices for navigating challenges and mitigating risk
- A toolkit of resources designed to help inform key stakeholders as they make strategic decisions
AGENDA

• State of the Nonprofit Industry

• Top Issues Facing Nonprofits
  ➢ Staffing and Retention Challenges
  ➢ Donor Relations and Impact Reporting
  ➢ Liquidity and Underfunding
  ➢ Mergers, Acquisitions, and Partnerships
  ➢ Cyber Threats
  ➢ Changing Financial Reporting Environment
  ➢ The Importance of Benchmarking

• Additional Resources

• Q&A
STATE OF THE INDUSTRY
Setting the Stage: The Nonprofit Landscape

Nonprofits are facing:

- **Shifting donor demographics** that are changing where and why people give—and who is making charitable contributions.

- **Funding cutbacks** at the federal, state, and local level that endanger their futures.

- **The perfect storm** of impending regulations and a lack of understanding about implementation.
1. STAFFING AND RECRUITMENT
Nonprofit Standards, our benchmarking survey, found 72% of nonprofits struggle with staffing.

Annual turnover rates average: 1 in 5 employees.*

*Source: Guidestar Nonprofit Employment Practices Survey
Regardless of the reason, employee satisfaction and employee turnover can be devastating to nonprofits.
STAFFING AND RECRUITMENT

HOW CAN NONPROFITS RECRUIT AND RETAIN TOP TALENT?

- **Stay competitive** in your local market.
  - Make sure your policies make the organization an attractive place for potential employees.

- **Capitalize on flexible work options...** but understand the risks involved.
  - Remote work arrangements can be both beneficial to employees and cost-effective for organizations.

- **Be proactive** about succession planning.
  - With 4 million Baby Boomers retiring each year, the need for a succession plan is a “when” rather than an “if” scenario.
2. DONOR RELATIONS AND IMPACT REPORTING
DONOR RELATIONS AND IMPACT REPORTING

DONORS, AND THEIR PRIORITIES, ARE CHANGING

84% of Millennials give to charity*

OVERALL PUBLIC TRUST in nonprofits is shaky.**

- 49% of donors don’t know how nonprofits use their money.
- 20% are unsure who benefits from donated funds.

And they’re increasingly focused on accountability and transparency.

*Source: Millennial Impact Report
**Source: Money for Good Study
55% of nonprofits say donors are demanding more information on outcomes.

These demands lead to increased administrative burdens for nonprofits.

- Organizations struggle with developing consistent reporting frameworks, a lack of staff to gather reporting data, and financial constraints.
DONOR RELATIONS AND IMPACT REPORTING

BEST PRACTICES FOR EFFECTIVE REPORTING

- Start with the end in mind.
  - What is the story you want to tell to stakeholders?
  - Think about what the world could look like if your mission was achieved.

- Make reporting an ongoing process.
  - Gather (and report) data on a quarterly or monthly basis to keep stakeholders in the loop, and to make year-end reports less daunting.

- Transparency is the name of the game.
  - Your report is an unparalleled opportunity to contextualize your organization’s metrics and finances. Don’t miss the chance to give a holistic view of your strategy.

- Sharing is caring.
  - Be sure to get your report out via multiple channels so existing and prospective donors alike have a chance to see it. Social media can be a low cost way to get your report in front of a lot of people.

- Check out the competition.
  - The National Council of Nonprofits has a directory of useful report guides and examples you can use as a place to start or refresh your reporting practices.
3. LIQUIDITY AND UNDERFUNDING
LIQUIDITY AND UNDERFUNDING
NONPROFITS FACE CUTS, AND FEW HAVE A SAFETY NET

40% of nonprofits have less than 6 months of operating reserves on hand.

- At least 6 months of reserves is best practice.
- Nonprofits often feel like showing donors a high percentage of expenditures on program activities, but that leaves little funding for operations.

Source: SSIR
LIQUIDITY AND UNDERFUNDING
WHERE DOES THE STARVATION CYCLE END?

For organizations facing the starvation cycle, there are many possible results.

- Consolidation through partnership, merger, or acquisition is one of the most common.

- Many organizations are unable to keep the lights on without adequate cash for overhead costs.

- When one organization is shuttered, others are left to take up their activities, further adding to the financial pressure.

*Source: SSIR*
4. MERGERS AND ACQUISITIONS
MERGERS AND ACQUISITIONS

WITH FUNDING PRESSURES, M&A CAN BE A VIABLE OPTION

There are more than 1.5 million nonprofits in the U.S., and many have similar missions.

- Just 7% of nonprofits report having plans to merge, but we expect this will rise in the coming years.

Mergers, acquisitions, or strategic partnerships can offer a host of benefits, including:

- Generating necessary liquidity for operations.
- Shared resources including space, employees, and technologies.
- Combining skill sets of boards and staff.
- Merging or partnering with an organization that can help further the mission or expand services to new areas.
- Reducing competition for donors.

*Source: SSIR*
MERGERS AND ACQUISITIONS

Despite Benefits, Partnerships Are Complicated

Common challenges that plague nonprofit partnerships:

- Viewing the merger as a “ripcord option”
- Not performing necessary due diligence
- Not understanding how expensive, and time consuming, a merger could be
- Lack of knowledge on how the transaction will impact financials
- Lack of knowledge on how to integrate the two organizations with key stakeholders.

*Source: SSIR*
MERGERS AND ACQUISITIONS

BEST PRACTICES FOR EXECUTING TRANSACTIONS

- Find your friends.
  - Organizations should have compatible missions and a shared culture of excellence.

- Magic happens at the board level.
  - Involve both boards early, and throughout the process.

- Explore strategic partnerships first.
  - These can often help solve for problems while being less complex than M&A.

- Think outside the box when considering partners.
  - Nonprofit/for-profit partnerships are on the rise, as are partnerships with public entities.

- Cooperation starts at the top.
  - Organizational leadership, including the board, needs to be committed to making the new arrangement work.
5. FINANCIAL REPORTING ISSUES
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A PERFECT STORM FOR NONPROFITS

25% of boards are concerned about increased regulations

There is a trifecta of accounting standards hitting nonprofits this year.

- FASB ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities
- ASC 606, Revenue From Contracts with Customers
- ASC Topic 840, Leases
FINANCIAL REPORTING ISSUES

FASB ASU No. 2016-14

- Represents the biggest change to nonprofit financial reporting in 20 years.
- Includes major changes to nonprofit financial statements.
- Touches net asset classes, statement of cash flows, liquidity disclosures, and more.

DEADLINES

- Fiscal years beginning after 12/15/2017
  - 2018 for those with calendar year-ends
  - FY18 for those with fiscal year-ends

WHAT NONPROFITS SHOULD DO

- Deadlines are imminent.
- Nonprofits should start educating boards and stakeholders now.

We wrote the book on nonprofit financial reporting.
FINANCIAL REPORTING ISSUES

REVENUE RECOGNITION

➢ Think Revenue Recognition doesn’t apply to your nonprofit? Think again.

➢ All nonprofit revenue recognition policies for exchange transactions will be affected.

➢ Determining which revenue streams are covered can be a complex task.

➢ An August ASU offers additional guidance on how to characterize contributions.

DEADLINES

➢ Public companies: reporting periods after 12/15/2017

➢ Private companies and most nonprofits: reporting periods after 12/15/2018
  - 2018 for those with calendar-year ends

WHAT NONPROFITS SHOULD DO

➢ Review and evaluate the impact the standard will have on revenue streams.

➢ Inventory all revenue streams.

➢ Evaluate current practices to identify gaps.

➢ Ensure adequate resources are designated to implement changes.

➢ Educate the board and other stakeholders.
FINANCIAL REPORTING ISSUES

LEASE ACCOUNTING

- Represents a complete overhaul of accounting rules for leases.
- Will impact all entities, particularly lessees.
- Designed to bring lease accounting in line with the new revenue recognition standards.

DEADLINES

- Public companies and some nonprofits: reporting periods after 12/15/2018
- Private companies and most nonprofits: reporting periods after 12/15/2019

WHAT NONPROFITS SHOULD DO

- Deadlines might seem far off, but the level of change needed will require forward planning.
- Nonprofits should first confirm which deadline applies to them to help prioritize and allocate resources.
- Organizations should start by taking an inventory of all of their leases, including property, equipment, etc.
The timing is tough, but organizations need to get prepared for all three changes.

Early and open dialogue within the organization and with stakeholders is important to develop a comprehensive plan.

Allocate adequate resources to manage these changes.

Know if your organization could be considered a public entity by the FASB.
- Take a look at any public debt.
TAX REFORM

There are important provisions nonprofits need to be aware of:

- Increase the standard deduction
- Increase the charitable contribution deduction limit
- Peal of the “Pease” limitation
- Excise tax on executive compensation
- Increase the estate tax exemption
- Excise tax on endowments
- Changes to unrelated business income taxation.

Nonprofits should:

1. Assemble a team.
2. Dig into the data.
3. Initiate tax reform conversations with their tax advisor.
6. CYBERSECURITY
But cybersecurity is vital to the health of a nonprofit.

Organizations risk reputational damage and potential litigation.

Nonprofits often think “who wants to hack us?” but they are ideal targets...

- Access to personal information of donors, employees, and beneficiaries
- Often limited investment in keeping technology and cybersecurity measures up to date
- Few nonprofits have a concrete cyber strategy.
CYBERSECURITY

BEST PRACTICES TO SHORE UP CYBERSECURITY

- **You need a champion.**
  - Organizations need a cybersecurity advocate to ensure a comprehensive program is developed and implemented.

- **Assess your risks.**
  - A risk management team should inventory systems and data assets and develop risk mitigation strategies.

- **Analyze your data assets.**
  - Use analytics to help make reasonable assessments of risks and threats.

- **Form a program development committee.**
  - This committee is responsible for executing your plan.

- **Improve strategies for internal control and information governance.**
  - Develop a data governance strategy, improve compliance capabilities, and deliver consistent reporting.
Enhance efficiencies and balance investments.
- Use automation to help avoid errors and increase efficiency.

Put your plan to the test.
- Conduct an incident response simulation.

Consider cyber insurance.
- Options should be thoroughly vetted to see if cyber insurance is the right fit for an organization.

Build a comprehensive program.
- Put together a comprehensive cybersecurity, data protection, and privacy program that involves all business functions.

Communication is key.
- Provide consistent updates and training programs.
7. THE IMPORTANCE OF BENCHMARKING
THE IMPORTANCE OF BENCHMARKING
A PERSISTENT CHALLENGE FOR NONPROFITS

Nonprofits struggle with the question:

Is my organization normal?

- Nonprofits vary widely in size and scope, making it tough for organizations to measure against their peers.

- Understanding how your organization relates to, and differs from, similar organizations can help inform decision making and strategic planning.

- Key benchmarking metrics can help plan for the future, set goals, and navigate stakeholder conversations.
THE IMPORTANCE OF BENCHMARKING

BENCHMARKING RESOURCES

HOW CAN NONPROFITS BENCHMARK?

- Look at publicly available data for similar organizations.
- Gather a group of peer organizations for information sharing.

BDO CAN HELP

- Nonprofit Standards, a Benchmarking Survey
- Assess Yourself Free Benchmarking Tool
- BDO Customized Benchmarking Report
  - Contact a BDO professional:
    - Laurie De Armond, ldearmond@bdo.com
    - Adam Cole, acole@bdo.com
2018 is likely to be a year of change and uncertainty for nonprofit organizations who are facing limited funding and regulatory shifts, all while donors are clamoring for more information on outcomes.

But the outlook isn’t all doom and gloom.

Charitable giving made headlines last year, and there’s hope that this trend will continue despite the challenges the industry faces.

For nonprofits, knowledge truly is power when it comes to effective management.
ADDITIONAL RESOURCES

WANT MORE INFORMATION?

Visit our Resource Center: https://www.bdo.com/resource-centers/institute-for-nonprofit-excellence

Read more on our blog: http://nonprofitblog.bdo.com/

Read the full survey report: www.bdo.com/nonprofitstandards

Email us: ldearmond@bdo.com acole@bdo.com

Follow us on Twitter @BDONonprofit

Download the survey GIFographic
QUESTIONS?
CONCLUSION
Thank you for your participation!

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SPEAKER BIOGRAPHIES
BIOGRAPHY

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Laurie is an Office Managing Partner and National co-Leader of BDO’s Nonprofit & Education Practice and the Greater Washington, DC Practice leader for the Nonprofit & Education Practice. She has more than 23 years of experience in all phases of client service and dedicates her time to providing audit and consulting services to a wide variety of tax-exempt organizations, including public charities, private foundations, trade associations, scientific and educational organizations, and quasi-governmental and governmental organizations.

She is a regular contributor to the group’s blog and quarterly newsletter, the BDO Nonprofit Standard and is a regular speaker at internal and external seminars. Laurie has served on numerous boards of directors, including a local college and currently serves as a financial expert for the audit committee of America’s Charities.

Laurie received one of the 2013 Women to Watch Awards from the Greater Washington Society of CPAs (GWSCPA) for her contributions to the profession. She is a member of BDO’s Inclusion Women National Strategy Group and a member of the GWSCPA Women’s Initiative Steering Committee.
BIOGRAPHY

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Adam is a Partner and National co-Leader of BDO’s Nonprofit & Education Practice and the Managing Partner of the Greater New York Nonprofit and Employee Benefit Plan Practices. He has over 27 years of experience and has spent his entire career auditing and consulting with both nonprofit and healthcare organizations.

He is one of the founding partners of the Greater New York Healthcare Practice, which has grown from 10 individuals in 1993 to over 100 individuals today. The practice specializes in many subsets of the nonprofit industry, including services to social service organizations, International NGOs, membership organizations, foundations, higher education, and religious organizations.

Adam is a nationally featured speaker and writer on such subjects as nonprofit mergers, liquidity, board governance issues, and financial dashboards.
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