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Nonprofit Insights

A Newsletter for Nonprofit Decision Makers

Winter 2018

Assignments and Alignment

Set Your Investment Committee Up for Success

How well is your nonprofit managing investments? A board with a modest portfolio might manage them directly, but most nonprofits with larger portfolios delegate this important job to a committee. If your nonprofit doesn't have such a committee, consider forming one.

Whether you're assembling an investment committee or already have one, some best practices can help it deliver more value. These measures can make the difference between investments that significantly advance your mission and those that merely stumble along.

The Board's Role

Final accountability for investments and results rests with your board. It can organize, delegate and outsource investing tasks, but the board is ultimately responsible for growing your nonprofit's assets through prudent, legal and ethical investing.

The most important element in success is an investment policy. This will help keep your mission and goals front and center and establish clear guidelines for all. It also permits the board to supervise at a leadership level, while confidently delegating day-to-day management to others with more time or expertise.

Some nonprofits make their investment policies public, so look over a few used by groups similar to yours. Your investment policy should address these main issues:

- Assets available to invest
- Acceptable levels of risk
- Reasonable expectations for returns
- Timeframes for results
- Conflicts of interest
- Limitations entailed by your mission or ethical obligations
- Procedures and arrangements necessary to implement these parameters

Investments take time to bear fruit, but don't let your policy drift. Revisit it as part of your annual investment reviews.

Structure Your Investment Committee

Your investment committee should include some board members, but it can also draw in staff or volunteers.

Nonprofit leaders often seek financial or investment expertise for such committees, and that's clearly helpful. But also reach outside this world to bring in others. The most effective committee chair, for example, might not be a stockbroker but a board member known for organizing productive meetings and following up on decisions.

A committee with diversity in its members' backgrounds, outlook and skillsets, meanwhile, will be more likely to avoid the confirmation biases that creep into groups of like-minded people.

Educate the Committee

Both the longest-tenured and newest members of your committee will benefit from occasional informational programs and reading material. In addition to your all-important investment policy, these programs might cover such topics as:

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Don't Forget Planned Gifts

Asking for money is hard enough as it is. Throw in talk of bequests and wills, with their unspoken nuances, and even the best fundraisers may cringe before the task.

This reluctance has some understandable reasons. In a fundraiser's view:

- It involves talk of death.
- It's not current money — you need funds right now.
- It's expensive and complicated, with lawyers and paperwork.
- You don't know many rich supporters.

Every one of these excuses, however, is wrong or exaggerated. A smart approach to establishing or maintaining a robust planned giving program can help your organization demystify the matter, overcome fundraiser hesitancy and develop a significant and lasting revenue stream. A planned giving effort can also bring you closer to your current donors.

Getting Started Is Easy

If you don't have a planned giving program, or you only have a feeble one, you can turn it around. There's no reason to complicate matters — just get the word out in your next mailing, on your Web site and at your next event. A couple of sentences in any of these channels will start the ball rolling and set the tone for more fully developed appeals. For example:

"Did you know you can make a gift in your will? Let your legacy continue your valued support of our programs for years to come."

Note: The information you provide in reply to interested donors should always include a reminder to discuss their plans with their attorney or financial advisor.

Some nonprofits have received substantial estate donations after just such an announcement. You can accept such a pledge and formally process it later as you build your program and accept other types of planned gifts.

Approach the Right People

Don't start with your biggest donors, but with your most frequent and active donors. Donors who are most loyal over the long haul, even with smaller gifts, are the ones most likely to continue that support with a bequest.

A modest donor, fully committed, may give as much in a will as an occasional large donor. Of course, you'll approach large donors as well.

The best age for entertaining a legacy request often is in the early 50s — a time when many people begin to consider their life and its impact and when the outlines of estates are clearer.

With any donor, the right conversation isn't one about the estate, or even the terms of the gift, but about the future. It begins with your nonprofit's most significant long-term prospects and the importance of the donor's current support, and it offers a natural segue into a great new opportunity to continue their admirable legacy.

Your Legacy Group

Planned gifts are the basis of your legacy group, a class of donors who deserve recognition and benefits just like other donors. They deserve a place on your donor wall, VIP status at events and substantive contact with your staff and leadership. An annual lunch or occasional conference call will help cement their ongoing support and keep your organization firmly in their will.

Many nonprofits call this group their "legacy society." That's fine, but don't miss a branding opportunity. It's worth some time to come up with a good name — one that references your organization's work and conveys the forward-looking and valuable contribution of legacy donors.

Major Transfer of Wealth Coming

By some estimates, charitable donations could reach $72 trillion over the next 40 years. That's good news, but competition for these gifts, already sharp, will grow even fiercer in the years to come. You can be sure that other nonprofits will step up their planned giving campaigns.

Fortunately, getting started is inexpensive. No special fundraising expertise is needed, and virtually any nonprofit can conduct a planned giving campaign.

Yet the daily grind of rent, payroll and other expenses can easily overshadow the long-term benefits of planned giving. That may be why only about six percent of Americans over 55 include a nonprofit bequest in their wills. Within the rest lies a vast and untapped source of funding.

Contact us if you're ready to start or grow your planned giving program. Our nonprofit experts can help you build a strong foundation.

Changes in Accounting for Leased Property

Accounting rules for nonprofits are changing, and your nonprofit will soon report some of its leased assets differently. The Financial Accounting Standards Board published new standards for leases in *FASB ASU 2016-02.*

These new lease reporting rules, scheduled to take effect for fiscal years beginning after Dec. 15, 2019, will affect most nonprofits. Your organization doesn't have to wait, however, and may adopt the new standards early at your discretion.

Two Types of Leases

Current accounting standards group leases in two categories: capital and operating leases. They treat a capital lease essentially as the purchase of an asset, since the terms of the lease are deemed to be tantamount to a purchase. Your balance sheet shows a capital lease as both an asset and a related debt, and that won't change under the new standard.

An operating lease, on the other hand, is one in which a nonprofit pays only for the temporary "right to use" an asset. Current standards don't require you to report such leases on your balance sheet, but only to disclose the terms and future rental terms in the notes to your financial statement — and that's what will change.

All Leases on the Balance Sheet

Under the new rules, both categories of leases will remain. But for those with terms longer than a year, your balance sheet will recognize the assets and liabilities attributable to the lease arrangement.

Your nonprofit will now report a multiyear operating lease as a "right-to-use" asset and also as a liability. Using the value of your lease payments, you'll recognize one lease cost, allocated largely on a straight-line basis over the lease term.

The new rule also requires you to report certain qualitative and quantitative information about leases — such as renewal options and variable lease payments, for example. Further, your statement of cash flows will show all cash payments in operating activities.

Ever More Transparent

The purpose of the new lease accounting rules is to inject more transparency into nonprofit accounting. That will permit everyone who uses the financial statements to more easily understand and compare them for different organizations.

Specifically, the new lease accounting standard will provide more clarity about the timing and amount of cash flows involved in leasing.

Your Investment Committee

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• *The fiduciary obligations of membership:* What does it mean to exercise diligent care, understand regulatory developments, remain informed about relevant matters and put the organization's interests first?

If every committee member has a clear understanding of these duties, this can greatly reduce the chance of improprieties — like the temptation to steer investments toward a relative in a brokerage firm.

• *The organization and its mission:* These can change over time. But even when they remain steady, a lunch-and-learn discussion can keep them concrete and uppermost in the committee's thinking.

• *The portfolio:* The better committee members understand your assets, the better they can oversee the investing process. Ask investment managers or advisors to explain the portfolio's current risk profile and the rationale behind its mix of asset classes.

Educate the Board

While your board supervises the investment committee, don't let it descend into the weeds of micromanagement. To achieve a proper balance, the board needs a solid grasp of the challenges the committee faces and how it's meeting them.

Encourage board members to read the investment committee's minutes and quarterly financial statements. Meanwhile, schedule regular presentations to the board to put these documents in context and explain changes in the broad investment direction.

Hire an Investment Advisor

Some nonprofit boards or investment committees may include financial professionals who can advise on investing, but most won't have that luxury. For them, hiring an expert advisor is necessary to make wise investment choices. The committee should devote some time to discussing how to choose an advisor and monitor his or her performance.

The investment advisor needs to know the organization's risk tolerance and plans for the monies invested, over both the long and short terms. Only then can the advisor be evaluated fairly.

Stay the Course

Working with your advisor isn't a one-off task. Your board or investment committee is responsible for regularly reviewing and approving your advisor's work and its conformance with your investment policy. Conscientious professional advisors include timely reviews in their offering.

Successful investing takes time. Don't measure your investments by the daily churn of the markets.

Whether your investment committee is seasoned or just getting started, our firm can help you institute these and other best practices.

WE KNOW.

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The Benefits of an Outside Audit

Many nonprofits are required by federal or state laws to undergo an independent annual audit. Such an inspection can appear as a tiresome chore or even the first step in a star-chamber investigation — but this view misses the opportunity that a thorough and objective audit affords your nonprofit.

It can demonstrate for all your integrity and compliance with accounting standards. And it can turn up inefficiencies or nonstandard practices you need to address.

While an internal audit can serve as an early-warning system, it may not deliver objective results. Even if your designated internal auditors have audit training, they still have a subjective stake in the outcome.

Independent auditors are better able to compare your finances to accepted standards. They'll work with your staff and gauge your internal controls with experienced eyes. Beyond your basic financial statements, they'll make a comprehensive review of activities in accounts payable, accounts receivable, fundraising, leases, investing, payroll and other areas.

An outside auditor will sum up its findings in an opinion on your financial statements. It will also deliver a management letter reporting weaknesses and deficiencies in internal controls and suggestions for general improvements.

This letter is usually the starting point for a discussion between the outside auditors and your own audit committee to improve the organization — and that's where you can realize great value.

A frank conversation with the auditors about their findings, in which you raise questions and solicit suggestions, will give you a sound understanding of your financial practices and how they stack up.

If the auditor's opinion is unmodified, you have a new and powerful tool for your fundraising activities. And if it's a qualified opinion, you'll know what to do to turn things around next year.

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