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How Can We Help?

Our firm provides a broad range of services for nonprofits, including:

- Attestation services
- Corporate governance
- Tax compliance and consulting
- Budgeting and cash-flow planning
- Human resources assistance

Our News Briefs are going electronic!

To receive future editions electronically, please email jcremerius@swcllp.com.

What to consider when forming an investment policy

Does your nonprofit have a formal investment policy? If not, your organization's investment committee might want to take a look at the following suggested outline adopted from the *Statement of Investment Policy* of the Texas State University Development Foundation.

State investment objectives and constraints

First, ask: What do we hope to accomplish with our investment policy? General objectives stated in your policy should address return, spending rate, and risk. Consider including details such as assumed rate of inflation, investment management fees, and any desired real portfolio growth to reach long-term goals. Most important, how much risk is your nonprofit willing to experience?

Your policy also should address investment constraints, such as liquidity and time horizon. Does your organization, for instance, rely on investments to "throw off" a certain percentage of income each year to meet spending needs for operations? What's the time horizon of your investments? Is their purpose largely to support current programming or endowments?

Describe performance measures

Additionally, your policy should state how you'll measure performance. Outline how benchmarks will be developed and compared to actual performance, both in the areas of risk and return. An annualized nominal rate of return should be stated as a goal as well as how market, inflation, and interest-rate risk play into investment decision-making.

Specify spending rate and asset allocation

Your spending rate will likely be a percentage of total return. But how do you define "total return"? Does this include unrealized or market gains as well as current dividends? And how is the amount calculated? Many organizations adopt an average of the trailing 36 months' results.

Give asset allocation special attention, because it's one of the most important decisions your investment committee can make. Base the allocation on the factors discussed above—it should be commensurate with your acceptable amount of risk and most likely to generate your expected return. Your investment policy might detail asset allocation, in general, as follows:

Total equities	50%
Total fixed income	36%
Total alternatives	14%
Total	100%

Be sure to review and revise your allocation strategies regularly. Given U.S. market volatility, diversifying across industries, geographic areas and types of assets reduces risk. Certain types of assets, such as fixed-income securities (for example, Treasury bills) are less volatile, while others such as equities are considered a source of long-term growth.

Define prohibited investments and portfolio rebalancing

Your policy should detail permissible and prohibited investments. Permitted ones might include real estate investment trusts, domestic large-capitalization equity securities, and cash equivalents. Investments inconsistent with your mission or considered outside an acceptable range of risk may be prohibited.

Include in your policy how frequently your investment team should rebalance the portfolio to realign with your investment allocation. Some policies state that rebalancing must occur every quarter. Others state that rebalancing will take place when there's a certain percentage deviation from the desired asset allocation.

Other considerations

You may want to incorporate the following components into your investment policy for a more complete depiction of your objectives.

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Your nonprofit is only as strong as its bookkeeper

The founder of a community theater had always kept the group's books. But the theater was growing, along with her responsibilities. So when a volunteer offered to act as bookkeeper, the founder gratefully accepted. Unfortunately, while well-intentioned, the volunteer was sloppy. And although he had for-profit bookkeeping experience, he didn't understand the nuances of nonprofit bookkeeping. When vendors started complaining about unpaid invoices, the group's leader knew there was a problem. Here's how to prevent this kind of bad bookkeeping from damaging your nonprofit.

Why you need to hire your help

Although volunteers can fill many important roles, some jobs—including bookkeeping—are best handled by paid employees. Your nonprofit's financial integrity is simply too important to leave to an unpaid, and possibly inexperienced or even potentially devious, bookkeeper. This individual doesn't have to be full-time. Many smaller nonprofits hire part-time or contract bookkeepers.

Before searching for a bookkeeper, consider what the position will demand. Most nonprofit bookkeepers are tasked with entering income and expense data into an accounting system (which an accountant will then use to create financial reports and prepare tax documents). Depending on the size and nature of your nonprofit, your bookkeeper may also be asked to:

- Track income and expenses by program,
- Pay bills, make bank deposits, and process credit card payments,
- Record accounts payable, accounts receivable, and cash receipts,
- Reconcile bank statements,
- Post adjustments to the general ledger,
- Help with year-end financial audits and tax preparation, and
- Send donor acknowledgments, order supplies, or engage in other clerical duties.

Although bookkeepers don't need accounting degrees or a CPA qualification, they should understand accounting terms and principles, be comfortable working with computers and accounting software, be detail-oriented, and be able to meet strict deadlines.

Nonprofits are different

An otherwise qualified bookkeeper with only for-profit experience can be a good candidate for your organization. But if you hire such a person, make sure he or she understands that there are differences between for- and nonprofit accounting. Any hire will need to get up to speed quickly on recording such items as pledges, donated goods and services, and restricted donations.

Prospective bookkeepers should also be carefully screened for ethical violations and criminal activity. Many nonprofits are defrauded by bookkeepers who have been given free access to financial records with little staff oversight. Your bookkeeper may be handling cash, depositing checks, entering donors' credit card numbers, and viewing other sensitive information. So you need to conduct thorough background and credit checks and always provide proper supervision by a trusted manager. Your financial advisor can show you some simple oversight controls.

Right person for the job

You wouldn't let just anyone manage your personal finances, so don't let just any volunteer or unqualified staff member keep your nonprofit's books. The wrong bookkeeper can put your organization in great peril—even lead to its downfall. If you aren't sure where to begin your search, talk to your financial advisor for ideas.

What to consider when forming an investment policy

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A delegation of responsibilities and authority. Detail the expectations for, and functions of, the general board, investment committee, investment advisors, managers, and custodians, and specify how brokers and advisors will be selected.

A conflict of interest statement. Written disclosure of any conflicts should be required. The investment committee can ask those with a conflict to excuse themselves from voting on investment decisions.

The investment process. Outline how investment information will be monitored and communicated.

A formal procedure for revising the policy. State how often the policy will be reviewed and amended. What changes will require board approval?

A matter of support

Your formal investment policy should be designed to support your organization as it moves forward. Be sure to review it with your CPA and your attorney to ensure your policy meets all legal and reporting requirements.

New Accounting Guidelines for Nonprofit Entities

By Megan Dake, CPA

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued a new accounting standard, Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The accounting standard becomes effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The purpose of this Accounting Standards Update (ASU) is to make improvements and provide more useful information to the users of the financial statements for not-for-profit (NFP) entities with regard to liquidity, financial performance, and cash flows. The problems addressed in the ASU are:

- The complexities of using the currently required three classes of net assets that focus on donor-imposed restrictions, and whether those restrictions are temporary or permanent.
- Difficulties in determining the liquidity caused by potential misunderstandings and confusion about the term unrestricted net assets and how restrictions or limits imposed affect an entity's liquidity.
- Inconsistencies in the type of information provided about expenses across NFPs.
- Impediment of preparing the indirect method reconciliation if a NFP chooses to use the direct method of presenting operating cash flows.

In order to address these issues, the new ASU provides changes in both the presentation and disclosures of the financial statements for NFP organizations. The changes include:

- Two classes of net assets will be presented on the statement of financial position, rather than the three classes that currently are required. The NFP will report amounts for net assets with donor restrictions and net assets without donor restrictions.
- With the change mentioned above, the statement of activities will present the amount of the change in each of the two classes of net assets, rather than the currently required three.
- The statement of cash flows will continue to present the net amount for operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- All NFPs will have to provide enhanced disclosures about:
  - Amounts and purposes of governing board designations, appropriations, and other actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
  - The composition of net assets with donor restrictions, and how the restrictions affect the use of resources.
  - How the NFP manages its liquid resources available to meet cash needs and expenses within one year of the balance sheet date.
  - Amounts of expenses by both their natural classification and their functional classification. This can be provided on the face of the statement of activities, as a separate statement, or in the notes to the financial statements.
  - A description of the methods used to allocate costs among program and support functions.
  - Clearer disclosure of underwater endowment funds.
- The investment return will be reported net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.
- In the absence of explicit donor stipulations, the placed-in-service approach will be used for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. Amounts must then be reclassified from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption.

Since this is a brief overview of the changes with the new ASU, we encourage NFP organizations to take the time to review the ASU and ensure the necessary changes are put in place to comply with the new reporting requirements. We are also available for any questions concerning the new standard.

What *really* motivates donors New research suggests some surprising answers

What do charitable donors want? The classic answer is: Go ask each one individually. However, recent research provides some insight into donor motivation that can help your nonprofit grow its financial support.

Taxing matters

The biennial *U.S. Trust® Study of High Net Worth Philanthropy*, conducted in partnership with the Indiana University Lilly Family School of Philanthropy, regularly finds that the majority of wealthy donors are primarily motivated by philanthropy. The tax benefits of giving were cited by only 34% of respondents in the latest survey, with most respondents claiming they would give the same amount even if they didn't receive an income tax deduction for the gift.

However, as the *Wall Street Journal* pointed out last year, in periods when the charitable deduction was threatened politically, as in 2009, donor responses told a different story. That year, 67% of survey participants asserted they would give less to charity if there were no deduction. That's up from 47% in 2005, when there was little discussion in Congress of eliminating it. Other studies support this seeming inconsistency, finding that the higher income tax rates rise (and thus the more valuable charitable deductions become), the more donors are willing to give.

On its own, your organization has little control over tax rates or deductions. But by teaming up with other nonprofits, you can exercise considerable influence over tax policy. For example, groups such as the Charitable Giving Coalition were widely credited with helping to defeat the latest congressional challenges to the charitable deduction. Some nonprofits also partner up to influence state legislation on such issues as charitable giving incentive caps.

One caveat: To preserve your nonprofit's tax-exempt status, political lobbying generally must be kept to a minimum. Consult your tax advisor if you're unsure about whether your participation might be considered "excessive" by the IRS.

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What *really* motivates donors *(continued from page 3)*

Matching opportunity

Of course, your nonprofit's influence over tax issues ultimately is limited. But other research suggests an opportunity for nonprofits to directly motivate donors to give—and to give larger amounts.

Several surveys have found that donors are just as motivated by matching gifts as they are by tax benefits. For example, a joint Australian and American study gave supporters a choice between a tax rebate and a matching donation to the charity. Donors were evenly split between the two—but those opting for the match gave more generously than those who took the rebate.

In another study, two Yale University researchers partnered with a charity to send fundraising letters to potential donors. Some were offered various levels of matching donations by a wealthy supporter while others were simply asked to donate without the match. The subsidy offer yielded 20% more donations, and yet the actual amount of the subsidy didn't seem to matter.

Matching gift offers have been a staple of public radio and television station fund drives for years. If your nonprofit hasn't already tried this approach, it's worth testing. You'll need to identify donors who are willing to use their large gift to incentivize others—reliable supporters such as board members or trustees who thoroughly understand your nonprofit's mission and needs. Consider using their gifts during short-lived fundraisers, where a "ticking clock" lends the matching gift offer greater urgency. If you adopt this strategy, be sure to vet your plans and matching gift sponsors with your legal and financial advisors.

Matching gifts aren't the only way to enable donors to stretch their giving dollars. Such strategies as gifting appreciated stock or real estate may appeal to major donors who want to make charitable giving a piece of their larger financial plans. As long as the donors meet applicable rules, they can avoid the capital gains tax liability they'd incur if they sold the assets.

Making assumptions

Donors can be motivated by many social and emotional, as well as financial, factors. So it's important not to assume you know how your target audience will respond to certain types of fundraising appeals. Perform some basic research by assembling focus groups representative of your donor base and by asking major donors (and their advisors) about their philanthropic priorities.