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News for Nonprofits

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Building blocks for effective board membership

The pandemic and ensuing economic downturn have put many nonprofits on shaky ground. In crises such as these, solid board leadership is more essential than ever — critical decisions affecting an organization's long-term survival must be made. As your board members attempt to stabilize the organization and build for a successful future, they should bear in mind their main duties and responsibilities.

Members are considered fiduciaries, or trustees, of their organizations. Their legal duties aren't only important for the success of their nonprofits. Compliance also can preempt personal liability for board members' actions, assuming the members are acting in good faith. Here are their three primary duties.

1. Duty of care

Board members must devote reasonable care and attention to provide the requisite oversight of your nonprofit. Among other things, they must ensure the prudent use of all assets including funds, facilities, staff and goodwill. This means that they need to be familiar with your organization's financial status. It's not enough to know whether your group has a budget surplus or deficit — members should know how to read and interpret budgets, financial statements and other critical documents.

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The duty of care also requires members to attend meetings (at least virtually) and read reports. And they must exercise sound judgment when making decisions, accounting for all relevant information rather than simply accepting staff recommendations.

2. Duty of loyalty

Members are obligated to act in the best interests of your nonprofit and its stakeholders. They should see that all of their activities and financial transactions are designed solely to advance your organization's mission, not their own interests.

The duty of loyalty requires your board to identify and disclose all conflicts of interest. Board members also should abstain from discussions or votes on matters that could benefit them or people close to them. For example, a member should disclose that he holds an ownership interest in a vendor business under consideration for a contract. Such a contract could constitute inappropriate self-dealing and provide an "excess benefit." That could happen if your nonprofit paid more for the service than

HELP THE BOARD HELP THE ORGANIZATION

Nonprofit board members often are recruited based on their passion for the cause. Unfortunately, passion alone doesn't guarantee effective board performance. You can help your members succeed by properly educating them on their roles and responsibilities.

New members, for example, should undergo a comprehensive (but not overwhelming) orientation. In addition to reminding them of the basic duties and responsibilities — which should have been discussed during recruitment — you can bring them up to speed on specific issues facing the organization.

It also can be helpful to provide written "job descriptions" for board members. Some organizations even ask their board members to sign a written agreement that lays out their responsibilities in express terms. In either scenario, it's important that board members receive some feedback on their performance. Simply knowing they're being evaluated can increase their accountability and commitment.

Another suggestion: You might consider assigning new board members a veteran member to act as a mentor. These veterans can answer rookies' questions about how best to fulfill their roles and help them apply their specific skills, experience and networks to further the organization's mission.

another customer would — or more than you'd pay a different vendor for the same service.

3. Duty of obedience

This duty relates to legal compliance. Board members must confirm that your organization follows all applicable federal and state laws, rules and regulations, as well as its own bylaws and other governing documents.

Board members also should confirm that your nonprofit files all required federal and state information and tax returns. They should ensure that your organization abides by the purpose of activities (or mission), identified in its applications for tax-exempt status, too, to avoid revocation of status.

Beyond the fiduciary

Of course, board members also have more granular responsibilities. New members, for example, might not realize that they're expected to evaluate and set your organization's executive director's salary. Or they might not know how actively they're expected to participate in fundraising, which is particularly important during the COVID-19 era.

In contrast to members who might underestimate their responsibilities, some board members could believe their duties are far broader than they are or should be. Although they should contribute to fundraising, strategic planning and oversight, the board largely must stay out of your organization's day-to-day operations. Board members frequently may work with paid staff, but it's up to your executive director to manage these employees.

The bottom line

Service on a nonprofit board can strike some as a cushy gig that looks good on a resume. The reality, as the turbulent COVID-19 environment has demonstrated, can prove much more demanding. When resources are threatened at the same time demand for services skyrockets, board members need to double down on the job and, perhaps, act creatively. However, their overriding duties always should guide their actions.

5 ways to keep remote workers connected

With many nonprofit employees continuing to work at home, engagement and morale can suffer. But more than a year into the pandemic, some best practices have emerged for combating feelings of isolation and disconnection that undermine productivity. Here are five.

1. Stay in regular contact

Perhaps the most important step you can take is to establish regular contact through both formal meetings and more informal, but meaningful, check-ins. When holding virtual meetings, encourage everyone to turn on the video option, rather than just relying on audio — it makes communication easier when attendees can see their coworkers' reactions and nurtures relationship building, as well.

As for check-ins, managers should take the time for individual interactions. They can tailor these contacts to the person's particular needs. Some employees are more comfortable working independently, while others require more "care and feeding."

2. Foster social interactions

Of course, not all office interaction is business-related. So-called "watercooler talk" can help cultivate cohesion and teamwork. To provide such opportunities, plan virtual coffee breaks, birthday celebrations or trivia contests. Also, slate time at the beginning or ending of virtual meetings for casual chatter or create online chat groups dedicated to nonwork conversation.

Many people have found it difficult to maintain their physical or mental health, so wellness activities are a way to kill two birds with one stone. Think about scheduling wellness activities such as yoga or guided meditation. Team fitness competitions — for example, tracking steps walked — are another option.

3. Respect schedules

Managers and employees need to respect one another's schedules. For example, meeting times should consider whether attendees are in different time zones. Remember, too, that employees working from home often must simultaneously juggle family responsibilities such as child care and parental teaching. Don't expect people to drop everything to make themselves available for impromptu meetings.

To avoid burnout, you also should discourage employees from becoming 24/7 workers. With smartphones and laptops always within arm's reach, it's easy to fall into that trap. Make clear to employees that they aren't expected to work outside regular hours or respond to off-hours emails immediately.

4. Recognize and reward

Experts agree that recognition and rewards go a long way toward building a loyal and enthusiastic staff. Some of these programs may have fallen by the wayside in the move to remote work, but the consequences for performance can prove significant. Employees have struggled with many challenges during the pandemic, and you should acknowledge and reward their efforts in the face of this adversity.

Make sure you relay recognition and rewards publicly. This makes the appreciation all the more meaningful, while incentivizing others to follow in their peers' footsteps.

5. Set the tone at the top

As always, your leaders must remember that the rest of the staff takes cues from those in leadership positions. Their behavior and attitudes reinforce and propel your organizational culture. Executives and managers should set the example by demonstrating compassion and empathy in their interactions, communicating clearly, and showing flexibility and an openness to ongoing change.

Professional and personal circumstances will continue to evolve for your employees, and with those developments, their needs may change, too. You may want to conduct occasional surveys to solicit feedback on staff ideas and concerns. Be sure to vet potential solutions to problems with employees before you implement them.

Time to replenish

Are your operating reserves at a good level?

Operating reserves — generally, unrestricted assets you can easily tap — are often called "rainy day funds." But stable reserves are critical for far more pressing reasons than the metaphorical rainy day.

Many nonprofits, for example, have drawn on their operating reserves since the spring of 2020 to cope with the economic backlash of the COVID-19 crisis. And many organizations wished they had had larger reserves to draw upon. Now, if you're able, take steps to replenish your reserves.

Reserves are critical

Solid operating reserves demonstrate responsible financial stewardship to your stakeholders. They also increase your odds for self-sufficiency, making you less vulnerable to unpredictable or cyclical revenue streams and government funding cutbacks.

Adequate reserves put you in the position to handle market-based swings in investment income, too, and enable you to cover unbudgeted expenses (for example, a roof replacement not covered by insurance). Reserves also can protect against staff or program reductions that would prevent you from achieving your mission. And they can empower you to take advantage of sudden opportunities (such as the availability of new facilities). In the direst scenario, a financial cushion can allow you to wind down operations in a more orderly fashion.

On the other hand, you generally shouldn't rely on reserves to make up for income shortfalls unless

you have a realistic plan to quickly replenish the fund. Reserves are better applied to income-timing problems than to deficit issues.

Target amount varies

Every nonprofit's circumstances are different, so don't base your reserves level on a strict rule of thumb. At a minimum though, your organization should likely strive for enough reserves to cover six months of operations, including payroll, fixed costs and other necessary expenses.

Also factor in organization-specific factors. If you're heavily dependent on government grants, public donations or fundraising events — each can experience dramatic shifts due to political or economic winds — your nonprofit should have robust reserves. But, if you have multiple, diverse revenue streams, you probably can get away with a less substantial stash.

You can estimate your target

To determine the right amount of reserves for your organization:

Prepare a long-term financial forecast. Review your latest budget and determine how your strategic plans will affect budgets going forward. It's essential to develop a realistic financial forecast for all aspects of your nonprofit, including every revenue stream and expense. Is any revenue stream in jeopardy or uncertain? Is a new program launch expected to boost certain expenses? For how long?

Don't limit your financial forecast to a single year. Taking a longer view — say, five years — will help you recognize trends and key influences that might not stand out in a one-year snapshot.

Quantify risks. Setting your operating reserves goal is one good reason to undergo a comprehensive risk assessment that identifies threats, including those related to:

- Your mission, sector and geographic location,
- Macroeconomic conditions, and
- Pending or potential litigation.

Assess the likelihood and potential negative financial impact of each risk. These estimations of risk exposure can help you determine appropriate reserve amounts. Once the target level has been decided, develop a plan to fund your operating reserves.

There's another side of the coin. Although it might sound counterintuitive, your operating reserves can become *too* large. Stakeholders want to see you using funds to achieve your mission, rather than accumulating stockpiles of money. Charity watchdogs often monitor nonprofits' reserves and make this information easy for potential donors to view and assess. If your reserves are too high, donors may conclude that you don't need their money.

One last thing

The size of your operating reserves is somewhat moot if your organization doesn't have a related policy in place. Your policy should address a number of issues, including the minimum amount to be held in reserves at all times. The plan for funding reserves might include budget surpluses, investment income, unrestricted contributions and even contributions solicited specifically for establishing a reserve fund. Your CPA can suggest other factors that should be included.

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GoFundMe Charity to shut down

GoFundMe Charity, the fundraising-dedicated website launched in November 2019, is now scheduled to shut down on September 30, 2021, when it will merge with GoFundMe.com. The last day to start a new fundraising campaign on the platform is June 30, 2021. Nonprofits have through December 31, 2021, to view and export their donor and fundraiser data and content such as campaign images and stories.

Recurring gifts will be canceled after September 30, and campaigns *won't* automatically transfer to GoFundMe.com. Organizations will need to recreate any ongoing fundraising campaigns to continue raising money on GoFundMe.com. Like the free pricing model on GoFundMe Charity, GoFundMe.com offers a 0% platform fee (plus a 2.9% transaction fee and $0.30 per donation), making it free for charities to start fundraisers.

What nonprofit employees say about cost-cutting and other changes

The 2020 Eagle Hill Consulting Nonprofit Survey, conducted by Ipsos, finds that 58% of more than 500 nonprofit employees polled say that their employer cut costs last year. And they predict similar changes in 2021, including program reductions (32%), hiring freezes (32%), salary reductions (23%), layoffs (20%) and furloughs (17%).

Most employees (54%) report that nonprofit leaders have implemented significant changes to their organizations' goals and activities, and 82% say their organization has altered how it serves its constituents in response to COVID-19. Nearly 90% report that their nonprofit has changed how employees work due to the pandemic (for example, remote work). In addition, 58% say their organizations have increased their focus on diversity, equity and inclusion in the workplace.

DAF giving continues to surge

Donor-advised funds (DAFs) are posting impressive numbers when it comes to charitable giving, suggesting nonprofits would be wise to actively pursue such donations. For example, Schwab Charitable, one of the largest DAFs, recently announced a jump of 35% in dollars granted ($3.7 billion) and 39% in the number of grants (830,000) in 2020, compared with 2019. The most popular organizations among Schwab donors were Feeding America, Doctors Without Borders and the Salvation Army.

A survey conducted by the National Philanthropic Trust found that that DAF grants to charitable organizations increased 29.8% by dollar value in the first six months of 2020, compared to the same months in 2019 — from $6.41 billion in 2019 to $8.32 billion. The total number of DAF grants increased by 37.4%, from 945,044 grants in the first half of 2019 to nearly 1.3 million in the first six months of 2020.

The support you need. The service you're looking for.

Succeeding in the not-for-profit sector today requires more than a strong commitment to your mission. It takes shrewd fiscal management, careful regulatory compliance, skillful use of technology and the assistance of advisors who know the issues nonprofit organizations face and how to address them.

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- Budget and policy design
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- Speaking on financial literacy and other topics
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We are committed to providing responsive, personalized service to the highest quality. We take time to truly understand your Organization so that we can customize our recommendations to your specific situation. Our goal is to make your processes easier, streamline your operations and ensure your success in reaching *your* goals.

We welcome the opportunity to discuss your mission and vision so that we may assist you with our expertise. Please call us at 602-230-2700 or e-mail info@azcpa.com and let us know how we may support you. Be sure to visit our website at www.azcpa.com for additional tools and information, as well as our archive of this newsletter.

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