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Profitable Solutions for Nonprofits

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Do the math: Deciding whether you need a CFO

Nonprofits typically work hard to make the world a better place in one way or another. But their ability to pursue their missions depends greatly on their financial health and integrity. That's why many nonprofits need to employ a chief financial officer (CFO). Depending on your size and other factors, you may be one of them.

What are the CFO's responsibilities?

Generally, the nonprofit CFO (also known as the director of finance) is a senior-level position charged with oversight of the organization's accounting and finances. He or she works closely with the executive director, finance committee and treasurer and serves as a business partner to your program heads. CFOs report to the executive director or board of directors on the organization's finances, analyze investments and capital, develop budgets and devise financial strategies.

The CFO's role and responsibilities will vary significantly based on the organization's size, as well as the complexity of its revenue sources. In smaller nonprofits with budgets of $1.5 million to $10 million, CFOs often have wide responsibilities — possibly for accounting, human resources, facilities, legal affairs, administration and IT. Midsize organizations, with budgets running up to $40 million and fairly simple funding and programming, also may require their CFOs to cover such diverse areas.

In larger nonprofits, though, CFOs usually have a narrower focus. They train their attention on accounting and finance issues, including risk management, investments and financial reporting. CFOs of midsize organizations with diverse programs (for instance, several programs that generate revenue) or governmental funding may have a similar focus.

What are your requirements?

Nonprofits with small budgets and straightforward operations probably assign these responsibilities to the executive director or choose a more affordable option. (See "The outsourcing alternative" at right.) As organizations grow and their financial matters become more complex, though, CFOs can help steer the ship.

Experts suggest weighing the following factors when determining whether to bring a CFO on board:

- Size of the organization,
- Complexity and types of revenue sources,
- Number of programs that require funding, and
- Strategic growth plans.

Static organizations are less likely to need a CFO than not-for-profits with evolving programs and long-term plans that rely on investment growth, financing and major capital expenditures.

Who's right for you?

With CFOs playing such an essential role, your nonprofit should devote considerable time and effort to hire someone with the right qualifications. At a minimum, you want a person with in-depth knowledge of the finance and accounting rules particular to nonprofits. A CFO who has only worked in the for-profit sector may find the differences difficult to navigate. Nonprofit CFOs also need a familiarity with funding sources, grant management and, if your nonprofit expends $750,000 or more of federal assistance, single audit requirements.

What about educational and professional credentials? The ideal candidate should have a certified public accountant (CPA) designation and optimally an MBA.

In addition, the position requires strong communication skills, strategic thinking, financial reporting expertise and the creativity to deal with resource restraints. It also is useful if the CFO has had experience in an organization with a wide range of functions — for example, human resources and IT — so that he or she can identify when outside professional expertise vital to the success of your organization is needed.

Finally, you'd probably like the CFO (and every employee, for that matter) to have a genuine passion for your mission — nothing motivates employees like a belief in the cause. And, in the case of a CFO, this makes it easier to understand that success for a nonprofit isn't only about the bottom line.

Asset to your organization

CFOs bring many advantages to the table. Not only can they help maintain fiscal health and assist the organization in achieving its goals, but they also can boost your credibility with potential donors and watchdogs. If your budget is growing and financial matters are becoming more complicated, you may want to add a CFO to the mix. ■

The outsourcing alternative

Does your organization lack the size or complexity to warrant having a full-time chief financial officer (CFO) on staff, but desire the financial peace of mind the position can provide? You might consider outsourcing CFO responsibilities to your CPA firm. Outsourcing can produce several benefits at far less cost.

With outsourcing, you can obtain cost-efficient access to top-notch expertise. Nonprofits often look to their existing staff when filling the CFO position, but your in-house accountant may not possess the requisite financial expertise. Outsourcing will likely cost far less than hiring someone new with the appropriate background.

You also could improve efficiency due to the outsourced CFO's resources. An outsourced CFO, with other nonprofit clients, may already have developed risk assessment or budgeting techniques that would be time-consuming if built from scratch. This person might have useful industry contacts, too.

Finally, outsourcing CFO services frees up your staff to focus on their core competencies. This increases the odds of accomplishing your organization's mission.

All eyes on performance
How to make data analytics work for you

Your nonprofit is accountable to many constituents, including donors, volunteers and the people you serve. A surefire way to demonstrate your effectiveness is through the use of data analytics. With facts at your fingertips, your organization can show the world how you're meeting your goals in community outreach, program activities, fundraising and more. Data analytics also can help you in day-to-day decision making and strategic planning.

It may be a good time to get started on a full program, or to revisit your current use of data and metrics.

Collect valuable information

Data analytics is the science of collecting and analyzing sets of data to develop useful insights, connections and patterns that can lead to more informed decision making. It produces metrics — for example, outcomes vs. efforts, program efficacy and membership renewal — that can reflect past and current performance. And that information, in turn, can predict and guide future performance. The data analytics process incorporates statistics, computer programming and operations research.

The data can come from both internal and external sources. Internal sources include an organization's databases of detailed information on donors, beneficiaries or members. External data may be obtained from government databases, social media and other organizations, both nonprofit and for-profit.

Home in on your goals

There are several potential advantages of data analytics for not-for-profits, which often operate with limited resources. The process can help:

- Validate trends,
- Uncover root causes of problems, and
- Take a holistic view of its performance.

Done right, data analytics can allow the management team to zero in on your organization's primary objectives and improve performance in a cost-efficient way.

For example, data analytics can serve a double-barreled purpose when it comes to fundraising. On the one hand, it may provide a way to illustrate accomplishments to potential donors who demand evidence of program effectiveness. On the other, analysis of certain data may make it easier to target those individuals most likely to contribute.

Initiatives to streamline operations or cut costs can stir up political or emotional waters, but data analytics facilitates fact-based discussions and planning. The ability to predict outcomes, for example, can support sensitive programming decisions by considering data from various perspectives, such as at-risk populations, funding restrictions, past financial and operational performance, offerings available from other organizations and grant maker priorities.

Plan the process with care

Excited about data analytics? If so, it's important not to put the cart before the horse by purchasing costly data analytics software and then trying to decide how to use the information it produces.

While new technology may be a good idea, your organization's informational needs should dictate what you buy. Thousands of potential performance metrics can be produced. That means you must take time to determine which financial and operational metrics you want to track, now and down the road. Which of your nonprofit's programs are the most important? Which metrics matter most to stakeholders and can truly drive decisions? How can you actually *use* the information?

You also need to ensure that the technology solution you choose complies with any applicable privacy and security regulations, as well as your organization's ethical standards. Security considerations are particularly important if you opt for a solution that resides in "the cloud," rather than installed software.

Additionally, you should determine how well the technology solutions you're considering can integrate with your other applications and data. If software can't access or process vital data, it will make a poor match for your needs.

Last but not least

While "data analytics" frequently brings to mind the technology involved, don't forget the human element. You can have the latest software, but without staff and leadership buy-in, data analytics can prove to be a pricey boondoggle.

So, introduce data analytics to your organization thoughtfully. Make sure that everyone understands the process and the objectives. And, remember, follow-through is essential. Even highly relevant information will be of little use if the board of directors, management and staff don't act on it intelligently. ■

Are your board members independent?

Nonprofits must state on their IRS Forms 990 the number of independent voting members on their board of directors. Donors, state attorneys general and the media increasingly have been scrutinizing this reporting, believing that independent directors are a key ingredient of good governance.

Some organizations mistakenly think that independence is only about addressing conflicts of interest. But the concept of independence in the nonprofit context is broader than that.

IRS definition

For purposes of reporting the independence of board members on Form 990, your nonprofit must use the IRS's four-part definition. Under it, a board member generally is independent if he or she meets these criteria:

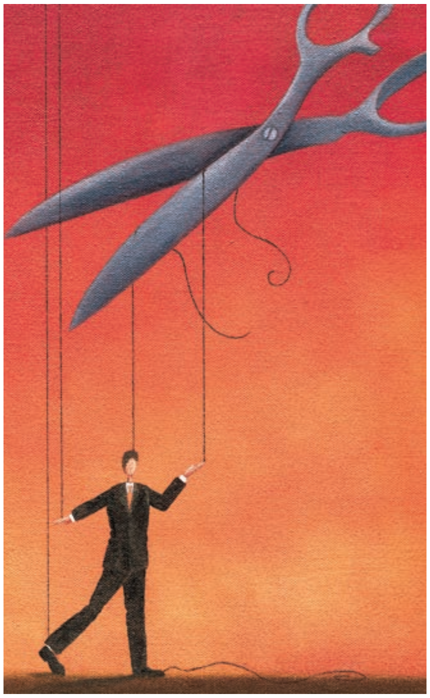
1. The member wasn't compensated as an officer or other employee of the organization or a related organization.

2. The member didn't receive total compensation exceeding $10,000 from the organization and related organizations as an independent contractor during the tax year. This excludes reasonable compensation for services provided as a board member.

3. Neither the member nor any family member was involved in a transaction with the organization that must be reported on Schedule L, "Transactions with Interested Persons."

4. Neither the member nor any family member was involved in a transaction with a taxable or tax-exempt related organization that must be reported on that organization's Schedule L.

You also must disclose on Form 990 whether any of your current officers, directors, trustees or key employees had a family or business relationship with each other at any time during the tax year.



Reasonable effort

Nonprofits aren't required to engage in more than a "reasonable effort" to obtain the necessary information for the disclosures about independent directors' family and business relationships. For example, you could distribute an annual questionnaire to all of your officers, directors, trustees and key employees asking for the relevant information.

Note, too, that a board member isn't considered to lack independence merely because he or she is a donor to the organization. In addition, a board member can be independent even if he or she receives financial benefits as a member of the group it serves (for example, a member of a chamber of commerce who also serves on its board). A religious exception may apply if the board member has taken a vow of poverty and belongs to a religious order that receives sponsorship or payments from the organization or a related organization that don't qualify as taxable income to him or her.

And remember, you aren't required to have *only* independent board members. But some charity watchdog groups suggest that a substantial majority (meaning at least two-thirds) should be independent.

Roles for your independent directors

Independent directors are a greater testament to your organization's integrity when they take on specific roles that can benefit from their independence. For example, the audit and compensation committees should include only independent directors. This helps assure compliance with IRS guidelines for conflicts of interest and establishing executive compensation.

It's also a good idea to include independent directors on the governance and nominating committees and in any other board decisions where relationships could be viewed as preferential — for example, decisions related to employee salaries. And consider holding all executive sessions of your board meetings with only the independent directors.

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Matter of best practices

Appointing independent directors to your board isn't just a matter of appearance — it's a critical component of good governance. IRS requirements aside, your nonprofit should regularly assess whether any of its directors' financial or familial relationships affect their abilities to act in your organization's best interests. ■

NEWSBITS

Nonprofits need to appeal to donors' self-images

Charitable appeals should take into account prospective donors' self-concepts, new research published in the *Journal of Experimental Social Psychology* suggests. Study participants viewed appeals that emphasized the pursuit of shared goals — for example, "Let's save a life together," or individual achievement: for instance, "You = Life Saver."

Psychologists found that people who earn less money were more likely to give in response to an appeal that emphasizes community. But those with incomes of more than $90,000 responded better to appeals focused on personal achievement. The researchers concluded that, rather than trying to persuade prospective donors to see the world as they do, nonprofits may find it more effective to "meet them where they are" when tailoring appeals. ■

FASB proposes changes to grant, contribution accounting

The Financial Accounting Standards Board (FASB) has released a proposed Accounting Standards Update (ASU) that could result in more grants and contracts being accounted for as contributions. The ASU, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, explains how to determine whether transactions should be considered contributions (which generally are recognized when pledged) or exchange transactions (which are subject to the revenue recognition standard, ASU No. 2014-09, *Revenue from Contracts with Customers*). The ASU also clarifies when a contribution is conditional rather than restricted by the donor, which affects the timing of revenue recognition.

The ASU would follow the same effective dates as the revenue recognition standard — with application for most nonprofits in periods beginning after December 15, 2018. ■

Congress eyes endowment tax issues

Federal legislators have expressed concern that the wealthiest educational institutions are sitting on huge and growing endowments — without paying taxes on their investment returns — while many students struggle to pay tuition. Orrin Hatch, chair of the Senate Finance Committee, has said that college endowments will be included in a tax code review, and reform proposals have already been made. Under one, colleges with endowments larger than $1 billion would be required to distribute at least 25% of their investment gains as tuition relief for students from working- and middle-class families. ■

Venmo explores nonprofit application

Venmo, a mobile payments app particularly popular with Millennials, is working on a channel that nonprofits can use to accept donations. Venmo is commonly used to transfer funds between friends who, for example, are splitting a restaurant check. With its emoji-filled news feed, the app could offer the opportunity for young people to donate, share their cause and perhaps subtly pressure their friends into donating, according to MarketWatch. The nonprofit program is currently undergoing testing with a limited number of organizations. ■

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