Profitable **Solutions** *for* **Nonprofits**

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Convenience giving

Online donation portals ease contributions, receipt process

Online giving makes it easier to donate to your nonprofit, which encourages *more* giving. And partnering with another organization to handle back office donations frees you up for other missions.

PARTNERING UP

Many 501(c)(3) organizations are finding it makes sense to combine forces with an online donation portal, such as Network for Good or JustGive.org, or a community foundation with a federated giving program. In either scenario, nonprofits use the online donation services of another organization to avoid reinventing the proverbial wheel.

If you align with an online donations partner, that organization will tell you what you need to do technology-wise on your end to get the service up and running. Once it's launched, donations that begin on *your* Web site automatically bounce to your partner's site, where they're processed.

In short, the giver decides on the amount to give and gives it; the online portal handles almost everything else, including online security. Network for Good, for example, assures that "donations will be made safely and your personal information will not be shared with others without your permission."

Your partner receives a portion of each donation, generally 3% to 4½%. To further encourage giving, the portal typically offers the contributor the option of taking the "commission" out of the donation or adding it to it. For example, someone who donates $100 to a food pantry may choose to give $104.50 so that the charity receives the full $100.

GENERATING RECEIPTS

What's especially useful is that the portal automatically sends the giver a confirmation e-mail after the contribution is completed. Contributors can print the confirmation page — with the amount donated, the name of the charity, the date, and an acknowledgment that the funds have been received — and this can serve as a receipt for tax purposes.

Automatic receipt generation is especially important because of changes in substantiation requirements. Under the Pension Protection Act of 2006, individuals must substantiate all charitable contributions regardless of the amount given. The

IRS will likely consider an e-mail receipt as an acceptable record of donation.

SHOWING BENEFITS, CREATIVE IDEAS

Information on the portals helps contributors see the tax benefit of their charitable contribution. JustGive.org, for example, displays a chart that shows the deduction for people in various tax brackets who make a cash donation of $100. It also explains how Form 100 helps givers determine the exact amount of their deduction, which will vary depending on their tax bracket and whether they file as a single person or jointly.

The portals also encourage creative giving. For instance, at holiday time the Network for Good suggests "out of the (gift) box" ideas, such as making donations to charity in honor of the people on one's holiday list. The portal will send an eCard to the recipient notifying them of the gift in their name.

EASING, ENCOURAGING DONATIONS

Of course, it's smart to have your tax advisor review your practices for taking in donations and giving out receipts. And remember, your job is twofold: to make it as easy as possible for contributors to donate to you, and to, in turn, help them get a tax benefit for their good deed. *

Strength in numbers

Merging with another nonprofit takes diligent preparation

Shrinking federal funding, stiff competition for grants and a soft economy all challenge the nonprofit's existence, giving rise to mergers and other strategic alliances. At times like these, common sense may point to pooling organizational resources and eliminating duplicate services in a community or for a certain market. If your nonprofit is contemplating teaming up with a like-minded organization for a rosier future, you'll need to address a variety of issues and take careful steps.

EXPLORE THE POSSIBILITIES

The process often begins with one nonprofit approaching another with the idea of working together more closely. Each organization typically puts together a small committee to explore future collaboration. As the exploration phase progresses, key people may be brought in from each entity to discuss the specific outcomes of a collaboration. You'll want to talk about functions that are distinct to each not-for-profit and that should, therefore, be retained. You'll also want to discuss functions that are similar and can be combined and leveraged. How will the new organization's mission be different from its predecessor's — if at all?

It's important to gather the opinions of major funders during this phase. Knowing their thoughts about your potential alliance will help you ensure the merged entity's focus aligns with their goals so you can avoid losing future revenue.

Once the merger is looking viable, don't wait too long to start the due diligence process.

MAKE IT LEGAL

Because a merger will change your nonprofit's structure dramatically, you and the other party must consider several legal matters, such as:

- The terms and conditions of the merger,
- Approval by both boards of directors and their restructuring into one entity,
- State approval, and
- The effective date of the transaction.

BE DULY DILIGENT

Once the merger is looking viable, don't wait too long to start the due diligence process. You want to avoid wasting time if there are any insurmountable barriers to the merger.

Like auditing, due diligence procedures verify information and investigate undisclosed matters. They also involve reviewing an organization's cultural, organizational and operational sides. Here are some areas you'll want to address:

1. Corporate documents. Examine the nonprofit's articles and bylaws to determine its corporate structure and various bodies — for example, the board of directors and standing committees. Gain insight on issues of importance to the organization by scanning board minutes.

2. Finances. Analyze audited financial statements and management letters to get a handle on the organization's basic financial status, liabilities and procedures. Make sure that any outstanding loan agreements permit a transaction like the one you're planning.

3. Taxes. Verify the organization's tax-exempt status. Also confirm that all necessary tax returns have been filed and that reported information coincides with financial statements.

WAYS TO JOIN FORCES

Here are the three most popular ways that nonprofits affiliate with each other:

1. **Merger.** This entails a legal change in the nonprofit's corporate status and produces the highest level of integration. For example, Girl Scouts of the USA is merging many local councils into regional ones.
2. **Back-office consolidation.** In this type of restructuring, the nonprofits share core administrative functions, such as office space and/or staff, but maintain separate corporations with separate executive and board leadership.
3. **Joint venture.** This is a collaboration of programs between two or more nonprofits and often includes a joint-venture agreement. For example, organizations may "partner" for a program and dissolve the partnership once the program is completed.

4. Litigation. Secure a legal opinion for any existing or potential claim or lawsuit, and determine insurance coverage. Look for any possible violations of laws and regulations in areas such as discrimination, health and safety, environmental compliance and immigration practices.

5. Insurance. Identify the scope and limits of all insurance coverage, and determine whether claims have been filed and/or are pending. Such an examination can reveal weaknesses in existing insurance programs, as well as internal risk-management issues.

6. Human resources. Study the organization's employment policies, salaries and benefits, and working climate, including turnover. Ensure compliance with all related legal requirements.

7. Property. Determine whether the organization maintains full legal right to use all real, personal and intangible property integral to the transaction. Review property agreements such as leases, mortgages and other liens. You want to be certain they don't place any restrictions on the proposed transaction.

8. Grants and contracts. Confirm compliance with all conditions and terms, and that the proposed affiliation won't terminate, or otherwise adversely affect, any grants or contracts.

9. Fundraising. Verify that the new entity can still comply with any restricted fund agreements and that all fundraising procedures are legally permissible. Look for any crossover in fundraising sources that could significantly lower net contributions.

10. Licenses, certifications and accreditations. Ensure that every required license, certification and accreditation is valid and transferable.

11. Retirement plans. Make sure all required IRS filings have been made and that there are no unfunded liabilities. Consult with plan advisors on the legalities of merging or terminating a plan.

PLAN FOR YOUR COMBINED FUTURE

If the due diligence process goes smoothly, your focus will turn to integration planning. The committee you initially formed — or a descendant — must establish a plan to transition from two separate entities to one successor organization. For example, you'll need to transfer all gifts or grants to the surviving nonprofit. This may mean contacting grantors of restricted funds to secure their consent, or to assure them that the restrictions can still be met.

Current programs also will need to be analyzed more closely than during the exploration phase, and the possibility of new programs also should be examined.

The committee can expect to spend considerable time debating the composition and selection of the merged organization's board of directors. Board operations should be determined (including term of office, quorum and voting) and committees named.

Other things you'll need to consider include the staffing plan, office location, budget — including employee benefits — and corporate structure.

Finally, the committee should establish a name for the new entity and complete the legal documentation.

MAKE YOUR FUTURE BRIGHTER

All in all, being on the verge of a merge isn't a bad place to be. If you proceed prudently, you'll be making a change that will help you achieve greater productivity, efficiency and sustainability in the future. ✻

Measuring fair value

New accounting rule to affect unusual investments and more

Expect to have your hands full this year as you apply a new accounting standard to financial statements and other projects that require fair value accounting. And plan to be particularly busy if your nonprofit has alternative investments such as hedge funds, private equity holdings or limited partnerships.

BIG EFFECT ON SOME INVESTMENTS

Financial statements for fiscal years beginning after Nov. 15, 2007, must comply with Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. If you haven't started familiarizing yourself with the new rule, now is the time to do so.

SFAS 157 defines fair value, sets a framework for measuring fair value in accordance with Generally Accepted Accounting Principles (GAAP), and expands disclosures of fair-value measurements.

SFAS 157 IMPACTS OTHER RULES

Here is a partial listing of other nonprofit-oriented accounting standards influenced by Statement of Financial Accounting Standards (SFAS) No. 157:

- SFAS 116, *Accounting for Contributions Received and Contributions Made,*
- SFAS 117, *Financial Statements of Not-for-Profit Organizations,*
- SFAS 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations,*
- SFAS 133, Implementation Issue No. B35, *Embedded Derivatives: Application of Statement 133 to a Not-for-Profit Organization's Obligation Arising from an Irrevocable Split-Interest Agreement,*
- SFAS 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others,* and
- Certain directives in the *AICPA Audit and Accounting Guide: Not-for-Profit Organizations.*

Nonprofits are likely to see the greatest impact of SFAS 157 on investments for which valuations aren't readily available. Applying the standard to publicly traded stock, on the other hand, should be relatively simple. For example, if someone donated 100 shares of AT&T stock to your organization, you could find out its fair value today with a quick Internet search.

However, if someone donates shares in a family business — let's say a bookstore — its value couldn't be ascertained in a few minutes. Rather, under SFAS 157, you'd have to follow a series of procedures based on benchmarks and other forms of measurement.

3 TYPES OF MEASURES

Under SFAS 157, there's a three-level hierarchy for fair value measurement:

Level 1. Quoted prices in active markets for identical assets or liabilities,

Level 2. Quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, or other observable inputs, and

Level 3. Unobservable inputs using the reporting entity's own assumptions about what market participants would use in pricing the asset or liability.

NEW DISCLOSURE REQUIREMENTS

Under SFAS 157, new disclosures are necessary for any assets or liabilities that should be measured at fair value. Disclosure consists of:

- The fair value as of the reporting date,
- Which of the levels was used for determining the fair value,
- For Level 3 values, a reconciliation of the beginning and ending balances, including purchases, sales, gains and losses, and
- The amount of the gains and losses included in earnings from changes in unrealized gains or losses for assets or liabilities still held at the reporting date.

Finally, disclosure must include the valuation techniques used, with an explanation of changes in techniques, if any.

OUTSIDE EXPERTISE

Because these disclosures are likely to affect your financial statement, it would be prudent to consult with your accounting professional now. You want to avoid any big surprises at your year end.

10 WAYS (OTHER THAN SALARY) TO TICKLE EMPLOYEES

As a nonprofit, you may be known for the rewarding work and amiable environment you offer employees. But this slice of the labor market isn't known for its lavish salaries or cushy benefit packages. Still, it doesn't always take a lot of money to make employees happy. Here are 10 modest — but interesting — ways to sweeten the deal.

1. Have a mystery outing, unannounced. Rent a bus and take your staff to a baseball game, an amusement park or a site to play laser tag. Put fun back into the equation.
2. If your organization (for example, a hospital) has a fitness center, give employees a free membership. If you don't have one, hire an instructor to lead a free aerobics, pilates or yoga class.
3. Offer telecommuting. Employees have personal responsibilities to attend to at home — for example, letting in the repairman. So give them a break a few days a month or more.
4. Provide technologies, such as cell phones, personal digital assistants and laptop computers, to help make telecommuting easier. These benefits can be tax free to the extent they are used for work.
5. If your organization has a cafeteria, offer employees free lunch or dinner — or at least a sizable discount. Employees' hearts — and stomachs — are likely to appreciate it.
6. Consider an old staple that seems to have lost some popularity: paid training or classes. Remember, boosting employees' skills adds value to your nonprofit, too.
7. Offer free legal counsel to employees. Some organizations, for example, have their general counsel available to employees and family members for wills, trusts, purchase agreements and other life-planning services.
8. Encourage healthy habits by subsidizing a portion of the cost for nicotine patches, weight-loss programs, and the like.
9. Provide free or reduced-rate parking. For many employees this is more than a perk. It may make it affordable to work for your organization. If you don't have parking space of your own readily available, look into deals with nearby lots or garages.
10. Utilize your own unique environment, and only you can imagine what that might be — whether you're a zoo offering a feed-a-baby-animal hour to your employees or a school using your gym for quarterly employee vs. management basketball games.

There are many ways to motivate workers without dazzling salaries or top-of-the line benefit packages. But whatever your organization may choose, make sure it's something your employees would use.

Newsbits

"REASONABLE BELIEF" EMPLOYED TO ASSESS TAX STATUS COMPLAINTS

Ever wonder how the IRS handles complaints challenging a nonprofit's tax exempt status? Here's what happens, according to new IRS Fact Sheet 2008-13, issued in February:

After the party complaining submits Form 13909, the complaint — also innocuously called "a referral" — is sent to the Exempt Organizations (EO) Classification Office. There, an EO agent analyzes the allegation. The agent must determine whether the facts support a reasonable belief that the allegations *may* be true "when considered fairly and in light of other reliable information." The reviewing agent will then find that the complaint:

- ✶ Warrants no further action,
- ✶ Relates to activities that should be considered at a future date,
- ✶ Should be forwarded to an EO committee for evaluation, or
- ✶ Warrants an examination. If so, a revenue agent contacts the not-for-profit to schedule an appointment to begin the exam.

If you're targeted for an exam, it's a good idea to contact your CPA. ❋

GUIDESTAR.ORG: BE THERE OR BE SQUARE?

Although it's been around for quite a while, GuideStar.org keeps on growing in popularity and in the ways it's used.

The Web site now lists information on the programs and finances of more than 1.7 million recognized nonprofits, according to GuideStar. And the site had more than 10.8 million visits, including hits from nonprofit leaders, grant makers, donors, government officials, academic researchers and the media. It also sells customized search tool software for government use.

Nonprofits are now submitting all kinds of financial information for public inspection, such as annual audits, IRS determination letters and annual reports. You'll also find state charity registration information and press releases on the site.

Even if you haven't registered with GuideStar, the site will likely carry your basic information, which it gets from your IRS Business Master File and your Form 990. To make sure your information is as complete as you'd like it to be — and current — consider registering. Then you'll be able to update or add to your information — free of charge.

Registering may now be even more beneficial, because last December GuideStar added donation buttons, allowing visitors to donate via the site. ❋

KEEP BABY BOOMER VOLUNTEERS CHALLENGED

Smart nonprofits are putting into action some findings of a federal study on retaining baby boomer volunteers — known for their large numbers and high level of education. The *Keeping Baby Boomers Volunteering* study by the Corporation for National and Community Service (CNCS) spotted some interesting patterns:

- ✶ Baby boomer volunteers who engage in professional activities — such as managing people or projects — are the most likely to continue volunteering the following year.
- ✶ Activities with the next highest volunteer retention rates are music or some other type of performance, followed by tutoring, mentoring and coaching.
- ✶ Volunteers who engage in general labor (for example, answering phones, putting stamps on envelopes or supplying transportation) drop out of volunteering more often, with only 55.5% continuing to volunteer the next year.

CNCS, which oversees AmeriCorps, Senior Corps and other domestic service and volunteering programs, says its 2007 study was the first ever to track baby boomer volunteering among a large sample. Serious about making sure boomers (those born from 1946 to 1964 and now starting to retire) donate their time, the agency sets a national target of 28.8 million boomer volunteers by 2010. Don't let your nonprofit miss out on its fair slice of this pie. ❋

Link, Murrel & Company

Helping nonprofits fulfill their missions

As a nonprofit executive, you know that operating your organization successfully today is a challenge, to say the least.

You not only have to deal with more intense competition for limited support, you also have to use your resources as efficiently as possible to stay in the black. And of course you have to make sure your organization complies with increasingly complex reporting requirements and regulations — and achieve your goals, too.

This is where Link, Murrel & Company can help. We specialize in helping nonprofits with a full range of accounting, audit, tax, consulting and compliance services.

Our nonprofit clients include a wide range of organizations in the greater Orange County area. Our emphasis on developing proactive, personal and value-added relationships with our clients has helped us build a strong reputation for quality, reliability and performance that exceeds expectations.

Link, Murrel & Company is a proud sponsor of the Volunteer Center of Orange County and supports their mission of being an "essential partner in improving the quality of life in Orange County by connecting community resources, increasing volunteerism, and building professional capacity in nonprofit organizations." The Volunteer Center of Orange County strives to encourage people to become personally involved in making the community a good and welcoming place to live, work, and raise a family. They have developed ways for people to best use their valuable time and talents to help others. Please visit their website at www.volunteercenter.org.

We hope you enjoy this issue of Profitable Solutions for Nonprofits and that it provides you useful information. Recommendations contained in this newsletter may not be appropriate in certain situations. Before implementing any of the ideas suggested, please contact our office for further inquiry.

Wm. Gary Crouch, CPA, is partner in charge of the Not-for-Profit Services Group at Link, Murrel & Company.

Gary has helped numerous of organizations manage their operations more effectively. He specializes in working closely with board members and executives to identify operational and financial issues hampering their success and to develop cost-effective solutions to them.

His service philosophy is simple: to exceed his clients' expectations at all times. Evidently he does, because many of his clients have remained with the firm for years.

We invite you to call Wm. Gary Crouch at 949.261.1120 to answer any questions you might have about various nonprofit issues or to discuss how we can help your organization meet the challenges facing not-for-profit organizations today.

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