SBF NONPROFIT DIGEST

PULSE CHECK: IS IT TIME TO UPDATE YOUR SPENDING POLICY?

By Michaela Kay, CPA

2020 was quite the year. While we started off with record highs in the stock market, by mid-March, we saw the fastest 30% decline in the S&P 500 in the history of the index. Since then, we have continued to see many ups and downs, but we still saw overall gains in the stock market.

What does this mean for your organization's spending policy? Is it time for an update?

Most financial experts advise sticking to your plan during tumultuous financial times and embracing volatility, as it can be an organization's best tool to beat inflation and maintain the spending power of invested funds.

However, the events of the past year have shed light on some reasons why an organization should consider updating its spending plan.

Here are a few examples of scenarios that might trigger a policy revision:

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1. The investment fund is underwater.

Just as with your personal finances, an organization should not live paycheck to paycheck. If an organization has withdrawn all the income from an investment fund, it may want to consider revising the spending policy to decrease spending. It is healthy to have a cushion of accumulated earnings. That way, when future losses come, it will not be necessary to dip into the corpus in order to keep funding program services.

2. The spending policy doesn't include a smoothing policy.

The most common type of smoothing policy is a simple moving average based on the average balance of the account over a specified period of time (often three years). This helps stabilize spending compared to a policy that focuses on fully spending the annual income or a fixed rate. It also helps to preserve the corpus in the long run.

3. The organization's goals and needs have changed.

Depending on an organization's mission, operations may have changed drastically in the past year. Some organizations, especially in arts and culture, have been shut down. Other organizations, especially those that serve basic needs, may have seen the biggest year in the organization's history. All of these changes have likely led to shifts in financial needs. As a result, it may be necessary to adjust spending in order to use funds responsibly.

4. The organization received a financial windfall.

From time to time, organizations receive bequests or other large contributions. Often these gifts are hard to predict and come at unexpected times. While it is always tempting to spend money, executive management and the board should strongly consider the best use for the funds over the long term. If the contribution is invested, organizations may be able to support programs with very stable funding for years into the future.

BEST PRACTICES FOR UPDATING YOUR ORGANIZATION'S SPENDING POLICY

Investment committees should regularly review their organization's investment and spending policies with help from a professional investment advisor. If organizations decide that it is time for a policy update, here are a few next steps:

1. Understand the organization's needs.

When designing a new policy, it is best to start from the ground and work your way up. What are the organization's needs? What is or is not working with the current policy? What is the primary goal for the investment fund? Don't rush into a solution before carefully considering the needs and issues.

2. Seek professional guidance.

Even if the organization has board members or others within the organization with strong financial backgrounds, it may be helpful to seek guidance from a third-party investment advisor. An investment advisor, especially one with a strong background in serving nonprofit organizations, may be able to offer an alternative viewpoint or provide additional ideas about how to meet the organization's objectives.

3. Start writing.
For any policy to be effective, it must be clear, consistent, specific and realistic. This will likely require several drafts and reviews from multiple people. When drafting, organizations should make sure to compare the new policy with other existing policies for consistency.

4. Seek approval from the board of directors.
Important policies, such as spending policies, should be approved by the board of directors prior to implementation. It's important for organizations to document policy approval in the board of directors meeting minutes and save the policy in a place where it can easily be accessed.

That said, there is no one-size-fits-all spending policy or process to update policies. Each nonprofit is unique and has unique needs for its spending policy. Thus, organizations should consider their options carefully, seek advice and input from others and, if an update is needed, begin writing a new policy with their specific needs in mind. (1)

5 STEPS TO MAINTAIN DONOR ENGAGEMENT IN A TUMULTUOUS TIME

By Robby Vanrijkel

COVID-19, the economy and political shifts have resulted in tumultuous times for many nonprofits. Organizational resilience depends heavily on securing funding, and organizations are seeking out new ways to engage with donors to ensure they have the resources needed to continue their missions. Successful nonprofits understand that maintaining these relationships is imperative for the survival and continued growth of their organizations.

To maintain donor engagement during these times, we recommend following these five best practices:

1. Scenario plan.
While organizations often are aware of their current financial status and most pressing risks, the events of the past year have proven that they need to go beyond assessing the status quo. Some risks are external in nature and incredibly difficult to foresee. Being aware of the full landscape of potential risks and conducting different scenario analyses to determine their impact to the organization are essential to both managing risk and communicating with donors. The future can be hard to predict, so having several scenarios to discuss both internally and externally is imperative to navigating tumultuous times effectively.

2. Be agile and able to pivot.
During this time, many organizations are responding creatively to the challenges they face, particularly in program implementation and operations. Keeping donors aware of how the organization has pivoted to preserve programmatic impact while ensuring operational excellence is an opportunity to increase donor trust and confidence. Accordingly, this crisis created an opportunity for optimizing operating models not only to address the near-term issues but to secure long-term success by furthering donor relationships.

3. Understand donor changes.
Many donors are offering flexibility with their grant-making and grant management process in several ways, including repurposing cost savings, extending grant terms, streamlining reporting processes and moving up payments, and converting project grants to general operating support. Ensure you are aware of any flexibility donors may be allowing and assess how these changes could affect your organization. If needed, ask donors to make adjustments that will assist your organization and allow you to increase your impact.

4. Maintain consistent communication with donors.
Inform donors of the current financial and operational status of your organization and proactively make them aware of constraints when they arise. Donors may have additional funds, programs or tools, such as COVID-related funds, core program funds, system enhancement grants, business planning grants or technical assistance support, to support organizations that are facing challenges. However, donors cannot help you solve problems unless they are aware of them. While this is historically not a common practice, these are unique times that require adaptability from all parties. Work with donors on near-term support options, while seizing the opportunity to advocate for longer-term flexible support.

5. Be honest.
It’s important to share honest updates with donors about what is going well and what isn’t to build trust in the midst of this crisis. Understanding and communicating the organization’s financial story and potential strategies for the future in an open and transparent manner will help foster stronger relationships. While there is certainly a power dynamic that exists between donors and organizations, nonprofits should not shy away from having these conversations in an honest but delicate way. Many donors prefer to engage in strategically oriented partnerships and focus less on transactional grant-by-grant relationships. Having open and honest conversations will ensure that donors are aware of the organization’s needs and how they can help.

While a year has passed since the outbreak of the pandemic, many organizations are still experiencing the aftereffects of the disruption it caused. Despite these challenges, there are measures nonprofits can take to ensure stability with donors. Following these five steps will not only build trust and confidence with donors, but also increase your organization’s resilience. (2)

PRIVACY BY DESIGN FOR NONPROFITS

By Gail Spielberger, CIPM

Privacy in the age of modern technology is a major concern for individuals and, moreover, is the focus of laws and regulations directed at organizations that use personal data. The fast-moving digital landscape has not only challenged current lawmakers, but has also resulted in an erosion of public trust in how data is used, stored, transmitted and protected. As organizations, including nonprofits, adopt new technologies, services and business operations, they must be proactive about their data policies and practices to assure individuals their personal data is safe, and likewise reduce the likelihood of data loss, unauthorized disclosure or misuse.

WHAT IS PRIVACY BY DESIGN?

Privacy by Design (PbD) is an approach that considers privacy concepts from the moment a product, service or business process is designed or planned, from inception to implementation. This means that products, services and applications must be designed and developed to protect privacy from the beginning rather than applied later as an afterthought.

Some privacy laws and regulations, such as the General Data Protection Regulation, legally require organizations to apply PbD principles as part of their organizational data practices. As part of these regulations, organizations may be required to provide evidence that they have implemented PbD.

This documentation not only demonstrates compliance to regulators, but it also allows your organization to recognize potential privacy issues so risks can be identified and mitigated as projects move forward. Further, these privacy implementations will provide your enterprise with a framework to comply with privacy and data protection laws and regulations, and can strengthen your reputation while differentiating your organization from the competition.

WHAT DOES THIS MEAN IN PRACTICE?

There are seven PbD principles that serve as an overarching framework for organizations to insert privacy and data protection early, effectively and credibly into information technologies, services or business practices. The information below provides the foundation for your organization to implement PbD principles for new projects where personal data will be collected, used, processed or stored.

PRINCIPLE 1.

Proactive not Reactive; Preventive not Remedial
Anticipate and prevent privacy events before they occur by:

- Creating individual awareness and adoption at the highest levels of the organization, mandating and enforcing high standards as it relates to data protection.
- Promoting a culture of accountability.
- Establishing methodologies and processes to identify data protection risks to ensure they are remediated in a timely and systematic manner.

PRINCIPLE 2.

Privacy as the Default
Build privacy into systems and processes so that personal data is protected automatically, by default, with no additional action required by the individual. This principle can be achieved by:

- Collecting only the minimum amount of data actually needed for specific business purposes and destroying or anonymizing data once it is no longer necessary for those purposes.
- Ensuring personal data is used only for a specific defined purpose and not repurposed unless proper notification and/ or consent is provided.
- Not using personal data without a legal basis or consent from the individual.
- Applying reasonable technical and organizational security measures to safeguard against unauthorized access, loss, destruction, modification or disclosure of data.

PRINCIPLE 3.

Privacy Embedded into Design
Integrate privacy into technologies, operations and information architectures to evaluate risks early in the ideation and design processes. Privacy should be embedded in the design and development process, not just considered after the fact. Consider:

- Adopting a systematic approach to embedding privacy in the design and development phases of each project, technology or business process.
- Systematically conducting Privacy Impact Assessments, Data Protection Impact Assessments and Vendor Risk Assessments to clearly identify and assess privacy risks.
- Measuring the risks and considering alternatives or mitigating actions.

PRINCIPLE 4.

Full Functionality – Positive-Sum, not Zero-Sum
Accommodate all business objectives, not just privacy goals, to achieve practical results and benefits for all parties and business units involved by:

- Embedding privacy in a way that does not impair the intended functionality, technical capability or business need.
- Carefully considering all requirements to achieve the optimal multi-functionality of each product.

PRINCIPLE 5.

End-to-End Security – Lifecycle Protection
Personal data needs to be protected throughout the entire information lifecycle from initial collection through destruction. Aim to collect, process, use, share, maintain and destroy personal data in a secure and timely fashion. Consider:

- Building protections for the secure destruction and disposal of personal data when it is no longer needed.
- Monitoring data transfers and ensuring appropriate safeguards and contractual arrangements are in place prior to doing business with third parties.
- Adopting appropriate access controls, encryption standards, data backups and continuous monitoring to ensure personal data remains accurate, with its integrity and availability intact.

PRINCIPLE 6.

Visibility and Transparency
Establish accountability and trust through transparency by informing individuals what data will be collected, how it will be used, and with whom it will be shared. Transparency is not just displaying what the organization does, but also bridging the gap between expectations and reality. To meet this principle, consider:

- Making privacy notices easily accessible and written in clear and simple terms in order to avoid overwhelming the reader with information.
- Mandating and enforcing privacy-related policies for employees and ensuring that vendors are evaluated to identify and mitigate risk in a timely manner.
- Keeping accurate records of data, how it is being used, with whom it is being shared, where it is stored, how long is it being stored for and how the data will be destroyed when no longer necessary.
- Allowing individuals to access and correct their information.

PRINCIPLE 7.

Keep it User-Centric
Respect individual privacy and provide employees, customers and third parties with an effective privacy experience. means providing them with clear choices about how and when your organization will communicate with them, as well as ways to opt out of having information shared with others and the right to have their data deleted. Consider the individual by:

- Obtaining consent to collect and use individual data in specific ways and allowing them the ability to modify or withdraw their consent if possible.
- Consciously designing products, systems and applications with the individual and their protection in mind.
- Limiting the amount of data your organization collects to reduce overall risk and liability for the individual and the organization alike.

CONCLUSION

As stated above, Privacy by Design is about examining how your organization uses personal data and what impact that use will have on individuals. By incorporating the aforementioned principles into your operations, your organization will be able to better: capture and mitigate risks, understand the data it possesses, demonstrate compliance to regulators and maintain respect for individual privacy. [3]

ACCOUNTING TECHNICAL UPDATE

FASB PROPOSES IMPROVEMENTS TO DISCOUNT RATES FOR LESSEES

On June 16, 2021, the Financial Accounting Standards Board (FASB) released a proposed Accounting Standards Update (ASU) related to the Leases standard (Topic 842). The proposed ASU would improve the discount rate guidance for lessees that are not public business entities which includes nonprofit organizations, private companies and employee benefit plans.

Under the new lease standard, that needs to be adopted for fiscal years beginning after December 15, 2021, these entities can utilize a practical expedient so these entities could establish an accounting policy election to use a risk-free rate as the discount rate for all leases. An example of a risk-free rate is a Treasury rate.

However, feedback from many stakeholders was that this risk-free rate election in the current environment was leading to an increase in the entity’s lease liabilities and right-of-use assets recorded in the statement of financial position.

The amendments in the proposed ASU address this concern by permitting these entities to make the application of the practical expedient by class of underlying asset instead of entity-wide. In addition, the amendments state that if there is a rate implicit in the lease that can be determined, that rate should be utilized instead of the risk free rate or an incremental borrowing rate, regardless of whether it has made the risk-free rate election.[4]

(1) (2) (3) (4) These are articles that originally appeared in BDO USA, LLP's 'Nonprofit Standard' newsletter (Summer 2021).

NEW ACCOUNTING STANDARD FOR IN-KIND CONTRIBUTIONS

Adam Daniels, CPA

In September 2020, FASB released ASU 2020-07 related to presentation and disclosure by not-for-profit entities for contributed nonfinancial assets. This standard will enhance transparency of such contributed nonfinancial assets. Nonfinancial assets are items such as donated buildings, household goods, food, medical supplies, clothing, advertising, vehicles, and services among other items.

The standard needs to be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021. Early adoption is permitted.

The new requirements include:

- Presenting contributed nonfinancial assets as a separate line item in the statement of activities (i.e., separate from cash contributions)
- Disclosing more detail regarding the contributed nonfinancial assets by category which includes the organization’s policy on liquidating rather than using the contributed nonfinancial assets, any donor-imposed restrictions, the valuation methods and inputs used to measure fair value, and the most advantageous market utilized in calculating the fair value.

We suggest not-for-profit entities start inventorying their nonfinancial assets now so that you can efficiently and effectively implement the new standard.

Our goal is to ensure that you make the most out of this information and that we can help you navigate any changes in this industry. Please let us know how we can help.

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