Nonprofit Observer

Prepare now to handle a reputation-damaging crisis

Effective altruism
Making their money count

Still struggling with how to account for contributions?

Launch strategies to handle the new overtime rules

SPRING 2020

Expert Advice
WE ARE TRUSTED BUSINESS PARTNERS

Strategic Solutions
WE HELP CLIENTS ACHIEVE THEIR HIGHEST POTENTIAL

Personalized Attention
WE ARE COMMITTED TO YOUR GROWTH AND SUCCESS

MW&A
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
Expert Advice | Strategic Solutions | Personalized Attention
111 Deer Lake Road, Suite 125, Deerfield, IL 60015-9578
Tel: 847.267.3400 Fax: 847.267.3401 www.mannweitz.com
info@mannweitz.com

Prepare now to handle a reputation-damaging crisis

Many nonprofits take time to develop disaster plans in anticipation of natural disasters, active shooter situations and other harrowing events. They may not, however, think about handling crises such as sexual harassment or embezzlement allegations against a leader, a regrettable social media post or similar circumstances that could generate significant damage. Here's how to protect yourself from this type of harm.

What are your risks?

The first step is to identify your vulnerabilities — those that could cause substantial reputational, financial or other damage. Then prioritize these risks, based on likelihood and potential cost.

Run multiple scenarios of possible crises involving the highest priority risks to get a sense of how they might play out. How would supporters, donors and the media react? How should you respond to mitigate damage? How can you detect such crises before they spiral out of control?

Who's in charge?

Your crisis management team should include the executive director, communications director, HR and, if applicable, general counsel. You want to keep the core relatively small to facilitate quick decision-making and action.

But you also want to include people with expertise relevant to the top priority risks (for example, the IT manager for cyber risks or the operations manager for a flood). When a crisis hits, you can add team members as needed.

What to put in writing?

A crisis manual — updated at least annually and reviewed by the individuals involved — will make it easier to mobilize if a crisis occurs. The manual should include a communication system for staying in touch with essential leaders, staff and stakeholders. Compile the list of key persons now so you don't inadvertently overlook anyone essential when the time comes. And assign someone to keep contact information current.

The manual also should comprise draft templates of talking points with a general response and information about the organization. You can get a head start, too, on draft press releases, social media posts and statements for your website. While the tasks may sound a little far-fetched right now, you could be thankful later that you've given the topics some advance thought.

You may find that you need outside assistance if the actual crisis is major. Research and vet resources now so you'll have a ready-to-go list.

How to communicate?

In today's world, inconsistent messaging from an organization's representatives doesn't escape notice. Appoint primary and secondary spokespersons and see that everyone is in the know. Make one person available to media 24/7; they should answer inquiries promptly to avoid the appearance that you're hiding something. If necessary, provide media training.

The first step is to identify your vulnerabilities — those that could cause substantial reputational, financial or other damage.

You also should consider distributing talking points to the entire staff, and possibly, the board of directors. It's a safe bet they have a social network, and people — friends, acquaintances, members of the media and even interested strangers — will send questions their way. It may prove more beneficial to keep everyone on the same page with a prepared response rather than to rely on their silence.

Messaging must align with your organization's missions and values, as well. Re-emphasize those in your statements, preferably at the beginning (unless, for example, it would seem insensitive to victims).

Note that, while your messaging must remain consistent regardless of who's presenting it, it can evolve over time; new facts will likely come to light. Monitor the online reactions to gauge how your response is going over and adjust as needed. Maintain truthfulness.

What about openness?

Transparency — within reason — goes a long way in containing crises. Hiding the truth and covering up errors only leaves you open to more criticism and rounds of negative media coverage. You're generally better off admitting any mistakes and sharing your plans for remedying them.

Confirm facts to the extent your attorneys approve. Generally, don't delete online posts, blogs or website pages with incriminating information, such as a policy you deviated from, or the ensuing social media comments, unless they're offensive or reveal confidential information. Check with your attorneys before taking such action.

Tone counts

The substance of your response to a crisis is obviously critical, but so is the tone. Show concern and compassion, not denial or defensiveness. ●

AFTER THE EVENT

The passing of a crisis shouldn't mean the end of action on the nonprofit's part. You need to take steps to restore your reputation and prevent future crises.

On the reputation front, keep up — if not intensify — your efforts to disseminate positive news about the organization via multiple channels. Distribute press releases, testimonials, case histories, outcome reports and similar materials through all your communication channels. This will not only help replace the bad news with good in the minds of your stakeholders, but also can help improve your online image by gradually moving back links about the crisis in search results.

You also should reconvene the crisis team, along with staff and board members who were highly involved in handling the crisis for review. What went well and what went poorly? What lessons have you learned that the organization can apply going forward to preempt crises and respond faster and more effectively? Armed with this information, revise your crisis plan accordingly.

Effective altruism

Making their money count

"How do I do the most good with my donation?" is a question many donors ask these days, as the social movement of effective altruism carries its momentum into the 2020s. *Effective altruism* is commonly described as a philosophy that uses evidence and reasoning to determine the most effective ways to benefit others. And the vitality of organizations, such as "The Life You Can Save" and "GiveWell," which were founded on those principles, is evidence that some donors are paying attention. So, the question for charitable organizations is, "Do you, and will you continue to, attract effective altruists?"

Espousing "strategic giving"

To appeal to effective altruists, you first must understand what drives them. Effective altruism — also known as "strategic giving" — doesn't focus on how effective a nonprofit is with its funds. Rather, it looks at how effective *donors* can be with their money and time. Instead of being guided by what makes them feel good, altruists use evidence-based data and reasoning to determine how to help others the most.

Effective altruists generally consider a cause to be high impact to the extent that it's:

- Large in scale (it affects many people by a great amount),
- Highly neglected (few people are working on it), and
- Highly solvable (additional resources will make a substantial dent in the problem).

For example, a highly solvable cause may be to support the UNICEF-USA-backed K.I.N.D.: Kids in Need of Desks. A $110 donation literally lifts four school children in Malawi off the floor for their learning experiences.

Because they strive to get the most bang for their bucks, some effective altruists focus on nonprofits that help people in the developing world rather than those that work with U.S. residents. So, instead of donating to a U.S. school, an altruist interested in education might donate to an organization that provides nutrition to children in poor countries — because improving their diets also will improve their ability to learn.

Skeptics point fingers

Effective altruism isn't without its skeptics. Some argue, for example, that planting doubt in the minds of would-be donors over whether they're making the right choices could deter them from giving at all. Pressuring them to do additional research also might dissuade them.

Others question whether the focus on measurable outcomes results in a bias against social movements and arts organizations, whose results are harder to measure. Organizations in those arenas usually work to eliminate broader problems, such as income inequality or oppression, where progress isn't easily quantified. The critics assert that

effective altruism's approach does little to tackle the societal issues behind many of these problems.

Critics also point out that an evidence-based approach ignores the role that emotional connection plays in charitable donations. When it comes to choosing which organizations to support, givers' hearts frequently matter more than their heads. Look no further than the donations that pour in after a natural disaster for evidence that such motivation works.

Effectiveness and subjectivity co-exist

A 2018 study published in *Psychological Science*, "Impediments to Effective Altruism: The Role of Subjective Preferences in Charitable Giving," looked at the influence on donor choices of providing nonprofit effectiveness information. The researchers found that, even when such information is presented in a way that makes it easy for donors to compare organizations' effectiveness, donors often choose less effective options that represent their personal preferences. In other words, they donate to the causes that they prefer over those that do the most good.

That's not to say that effectiveness information doesn't matter at all. According to the researchers, while donors' subjective preferences dominate their selection of causes, they'll turn to objective information when choosing among charities that support their chosen causes.

Lesson learned

The lesson here may be that nonprofits should develop materials that show impact in addition to an emotional pull. Overlooking the effective altruism movement would likely be a mistake.

Still struggling with how to account for contributions?

After the Financial Accounting Standards Board's (FASB's) 2014 release of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, many nonprofits were confused about whether grants and similar contracts were covered by these new revenue recognition rules. The FASB's subsequent issuance of ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, was intended to provide some helpful answers.

However, the second ASU apparently left a significant number of stakeholders with some questions, particularly regarding the effect of budget requirements and cost-sharing provisions. In response, the FASB has released a Q&A.

Some light is shed

ASU 2018-08 describes how to determine if a grant or similar contract is 1) a contribution or 2) an "exchange transaction" subject to the revenue recognition rules. If it is an exchange transaction, you follow the guidance under ASU 2014-09. If the transaction is a contribution, you follow the guidance under ASU 2018-08 and determine whether it's conditional. Unconditional contributions are recognized when received, while you

don't recognize conditional contributions until you overcome the conditions for receiving the funding.

A conditional contribution must include both:

1) A barrier the organization must overcome to receive the contribution, and

2) Either a right of return of the transferred assets or a right of release of the promisor's obligation to transfer assets.

The ASU identifies three indicators that a grant agreement includes a barrier — including limits on the nonprofit's discretion over how to conduct an activity.

The FASB heard from stakeholders that additional guidance was needed regarding this indicator. The new guidance discusses whether budget requirements and cost-sharing provisions limit discretion and therefore indicate that barriers to receiving the funds exist, or whether they're merely donor-imposed restrictions.

Guidance on budget requirements

The update makes clear that the existence of a budget and a requirement that you adhere to it within deviation limitations don't, on their own, indicate a "barrier to entitlement." For example, a barrier doesn't exist simply because you must obtain preapproval to deviate from a line-item by more than 10% of the budgeted amount. Rather, the agreement generally must include other stipulations, such as the need to incur qualifying expenses, for a barrier to exist.

The FASB stresses, though, that the limited discretion indicator is just one of three indicators for determining whether a grant agreement includes a barrier. Moreover, some of the indicators may prove more significant than others, and no single indicator is decisive on the question. That means you must analyze the unique facts and circumstances of each grant agreement to conclude whether a barrier to entitlement exists.

Guidance on cost-sharing provisions

Cost-sharing provisions require the grantee to use a certain amount of funds other than the grantor's toward a program or project to be entitled to the granted funds. They typically involve the spending of the nonprofit's own resources, as opposed to matching provisions, where the nonprofit is required to raise funds from another outside source.

The FASB heard from stakeholders that additional guidance was needed.

According to the FASB, a cost-sharing provision should be considered a barrier only if it's clear that grant funds are contingent on the organization meeting the requirement. The likelihood of satisfying the requirement is irrelevant.

Consider, for example, a multiyear grant that requires you to provide, from your own resources, a certain percentage of the award in each year to be entitled to the funds for that year. If you don't meet the cost-share for a particular year, the grantor has the right to require return of the funds.

Under the new guidance, a barrier to entitlement would exist for each year — so recognition of the grant fund revenue should be deferred until the cost-sharing requirement is met each year.

But what if a multiyear grant instead requires you to provide from your own resources a certain percentage of the *total* grant award by the end of the last year to be entitled to the funds, with no annual requirement or a right to require return? While a barrier would exist, the timing of when you must meet it and the timing of the specific grant funds at risk of return would differ from the example above. You would need to defer recognition of the grant revenue in a particular year only if the remaining portion of the award for future years doesn't exceed the amount at risk.

Proceed with caution

The new Q&A tackles issues that many nonprofits have run into when implementing ASU 2018-08, but it also calls for some specific calculations in certain circumstances, especially when it comes to deferral of revenue recognition. Read it here: https://bit.ly/2uCy2UA. Your CPA can help ensure your compliance.

Launch strategies to handle the new overtime rules

New federal rules that took effect January 1 are expected to expand the pool of overtime-eligible employees by more than 1 million. With no exceptions for nonprofits, some are looking for ways to avoid overtime liability. Particularly eager are organizations with tight budgets that didn't anticipate such costs. Here are some strategies to cut overtime hours.

Increase salaries. The rules raise the salary level for overtime exemptions for managerial or professional employees to $684 per week, or $35,568 per year. If employees' salaries fall just under the threshold, it may cost less to raise their salaries if they work a lot of overtime (under federal law, more than 40 hours per week) rather than pay for the additional hours.

Redistribute workloads. You can shift what would qualify as overtime hours away from employees who were exempt from overtime pay under the previous rules but now are nonexempt.

Bring in new employees. In some situations, you may reduce your payroll liability by hiring new employees to reduce or eliminate overtime hours.

This also is a good time to ensure your exempt employees satisfy the job duties test for their exemptions. The administrative, professional and executive exemptions each have detailed requirements for the actual work performed.

Plan accordingly

The revised overtime rules appear to be here for the foreseeable future. Make sure to incorporate any related increase in your labor costs in plans.

MW&A

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Partner With a CPA Firm that Understands Nonprofits

Committed to Your Growth & Success

Serving the accounting, audit, tax and business advisory needs of nonprofit organizations is a primary focus of Mann Weitz & Associates. We work closely with more than 130 associations, foundations and charitable groups across the country, with annual budgets ranging from $500,000 to more than $40 million. In fact, more than 60% of our clients are nonprofit organizations.

MW&A's nonprofit professionals have significant hands-on experience working with nonprofit organizations and become integral members of your internal team. As passionate advocates, we strive to help every organization we serve reach its highest potential.

Trusted Business Advisors

At MW&A, we pride ourselves on becoming trusted business advisors to our clients. We do this by providing the expert advice and leading edge solutions you would expect from a larger firm, coupled with an unwavering commitment to providing the prompt and personalized attention only a boutique CPA firm can deliver.

To assist your organization in achieving its mission and goals, we provide comprehensive accounting and consulting services including:

- Audit and Assurance
- Tax Planning and Compliance
- Business Consulting
- Bookkeeping Services
- Outsourced CFO Services
- Accounting Software Support

Achieve Your Highest Potential

In keeping with our dedication to meeting the accounting and business needs of nonprofit organizations, MW&A established The Midwest Resource Group – a network of highly experienced advisors serving nonprofit organizations that we can draw upon to support our clients. Services available through the Midwest Resource Group range from insurance, HR, investment and IT consulting to executive search, training, research, website and marketing services.

We also participate in the Association Forum of Chicagoland and are active members of the Illinois CPA Society's Not-For-Profit Organizations Committee. In addition, we are members of the American Institute of Certified Public Accountants' (AICPA) Not-For-Profit Section and its Center for Governmental Audit Quality and Employee Benefit Plan Audit Quality Center.

MANN WEITZ & ASSOCIATES
MW&A
25
25 YEARS & COUNTING

We are proud to have reached this milestone year. Since 1994, when Mark Mann and Len Weitz founded MW&A, we have been focused on providing proactive and personalized service for our clients. Through it all we have created a healthy culture and flexible environment for our valued staff members.