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Nonprofit Insights

A Newsletter for Nonprofit Decision Makers

Spring 2019

The Healthy Nonprofit

Best Practices for Board Orientation

You have carefully recruited, interviewed, and vetted the next slate of board members. These eager additions are ready to commit to your mission, but how can you ensure that they are prepared to carry your organization into the future? Board orientation is a crucial first step.

Your orientation process should get new members to acclimate and contribute in their new roles as soon as possible. At its core, the process should leave everyone feeling valued, appreciated, informed, and inspired.

Start Early

Ideally, board orientation should start when you are considering a prospective new member. At this stage you can set the bar for success. During your initial conversations, prospective board members should come away with five basic understandings:

1. How and why their particular skills and talents will be valued by the board and the organization
2. Roles and responsibilities of board membership
3. Realistic minimum time commitment
4. Challenges and opportunities facing the organization
5. Specific fundraising requirements

Prepare Briefing Documents

Every nonprofit organization needs thorough, updated briefing documents. Present them in advance of new board members' first meeting. Your package should contain the following:

Compelling overview: Include a summary or brochure outlining the history of the organization and its goals. The intent is to turn new members into ambassadors for the organization, so give them persuasive, inspirational language they can adopt as their own when speaking about your mission.

Recent accomplishments: Document successes and works in progress, and ask members to consider where they can add value.

Organizational chart: Help board members navigate the "who's who" of your staff by including an org chart and directory. Include information about the function of each staff position and a staff bio. Also include board bios and contact information.

Roles and responsibilities: Recap roles and responsibilities to reinforce your earlier discussions with new members and remind them of what you expect.

Governance, budget, and IRS documents: Include bylaws; recent minutes; recent IRS Form 990s; governance policies, including those regarding conflicts of interest and gift acceptance; executive director and staff compensation and benefits details; directors and officers insurance; and any public disclosures of interest. Also include the most recent set of financial statements and a current budget.

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Word to the Wise

Understanding D&O Liability Insurance

Your board is critical to the success of your nonprofit organization. Board members must meet certain standards of conduct, including governing the nonprofit according to its bylaws, exercising reasonable care when making decisions, and assuming certain responsibilities—and liabilities—related to their roles as directors.

With these responsibilities come risks, and many board members may not even know the extent of their personal exposure. Protecting your board members—and attracting new ones—often requires an insurance policy designed specifically for this purpose.

What's Covered?

Directors and officers (D&O) liability insurance indemnifies the organization and its directors, officers, and trustees for damages and defense costs arising from lawsuits alleging "actual or alleged wrongful acts" not covered under the organization's general liability policy. These types of allegations fall into two main areas: employment-related issues and governance and fiduciary issues.

Employment practices claims: The most common and costly D&O claims are related to employment practices. Employee termination triggers the majority of employment-related claims against nonprofits and accounts for a majority of total awards.

Examples of employment practices allegations include sexual harassment, racial and gender discrimination, retaliation (whistleblower claims), defamation, failure to accommodate (Americans with Disabilities Act claims), and claims involving improper employee classification (exempt vs. nonexempt, independent contractor vs. employee).

Fiduciary and governance claims: Although they represent less than 10 percent of all D&O claims, fiduciary and governance claims can be significant. The most common types of fiduciary and governance claims involve breach of contract, improper board appointments, mishandling of assets, improper revenue reporting, failure to properly file IRS reports and payroll taxes, and mismanagement of employee benefit plans.

D&O policies can pay for legal fees, judgments, settlements, and other court costs. Without D&O coverage, directors are personally liable and must pay these expenses out of their own pockets. For this reason, some individuals might be unwilling to serve as directors or officers if your organization doesn't provide adequate D&O insurance.

While the direct costs of litigation and settlement can be expensive, litigation has other significant costs to the organization, including the time required for executives or officers to prepare for and undergo depositions. Also, reputational damage to the organization can be costly, and it's not unusual for claims to take more than a year to resolve.

What's the Cost?

Several factors determine the cost of D&O policies, including the size of the nonprofit, number of employees, and the strictness of human resources and governance policies. As with all insurance, lower risk means lower cost.

Many insurance companies will write D&O policies only as add-ons to their general liability policies, and all D&O policies do not have the same coverage. Certain types of claims are specifically not covered by D&O policies. Consult with your insurance advisor to ensure you have the proper coverage. He or she can also help you assess and mitigate risk to lower your premium costs.

Interested in learning more? We are happy to discuss ways to manage the needs of your directors and officers.

How to Work with New Lease Accounting Standards

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), revising rules on how to account for leases on the balance sheet and financial documents. These changes affect all entities—including nonprofit organizations—that lease office space, vehicles, and equipment such as copiers and phone systems.

In the past, these types of operating leases were considered to be "off balance sheet," and nonprofits have only been required to disclose them in the notes of their financial statements. Moving forward, nonprofits must recognize operating leases on the balance sheet, with the new rules going into effect for most nonprofits for fiscal years beginning after December 15, 2019.

Why the Change?

The FASB has instituted this change to improve transparency and provide a more accurate measure of the contractual obligations that underlie leases. The intent is to provide financial statement users a more consistent representation of lease obligations and help users understand the amount, timing, and uncertainty of cash flows related to leases.

Explaining the necessity of the new rules, the FASB cited a study by the Securities and Exchange Commission that identified leasing as the largest off-balance-sheet transaction, with an estimated $1.25 trillion in lease obligations—a significant amount to be reflected only in disclosures.

While this change will have the greatest impact on entities with large amounts of leased real estate, manufacturing equipment, and vehicles, it affects any lease with a term longer than 12 months.

How It Works

Moving forward, all operating leases will be recorded as an asset and a liability. The asset, or in the new leasing terminology, the "right to use assets" will be amortized over the life of the lease. An offsetting liability for the present value of the lease payments will be recorded representing the obligation to pay the lease.

The "right to use" concept states that an operating or finance lease contract gives you the right to control the use of an asset for a stated term. With this right, the lease agreement creates an asset that must be reflected on the balance sheet and with it a corresponding liability to be recognized.

Note that several lease types aren't affected by the new rules, namely short-term leases of 12 months or less and leases for intangible assets, such as software licenses. And while there is no grandfathering for existing leases, renewal terms can be included in initial calculations if the nonprofit organization is "reasonably certain" the renewal options will be exercised.

Next Steps

Implementing the new standards will take time. If you haven't yet gathered all of your operating leases and looked at their key provisions, now's the time to do so. You may need to change some of your internal processes and controls to accommodate the new requirements.

You'll also want to prepare and educate your board, donors, lenders and other users of your financial statements about the required changes and how leases will now be represented on your financial statements.

We are familiar with the new lease accounting standards and can answer any questions you may have.

Acclimating New Board Members

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Upcoming events: Board participation in events is a must, so be sure these important dates are on members' calendars.

Fundraising goals and practices: Because board members often play key roles in fundraising, sharing your forecasts will be important to their success.

Meet and Greet

Many boards prefer to hold a standalone orientation meeting for new members before their first working board meeting. This separate time allows new members to get to know each other, become familiar with organizational basics, and get detailed answers to specific questions.

The idea is to not only acclimate but inspire your recruits and let them know why each was selected for the board. Include a "vision" presentation to give the new board members a clear picture of where your organization is going, and provide details about yearly fundraising cycles, events, and planned campaigns.

Show Gratitude

Serving on a nonprofit board is a lot of work. Be sure you show your gratitude to your new — and existing—board members by respecting their time, honoring their input, and thanking them often for their help.

Our team is well versed in board orientation best practices. Call us today to discuss your ideas.

Our goal is to provide the highest quality tax, accounting and consulting services for our clients.

DAMITZ
BROOKS
NIGHTINGALE
TURNER
MORRISSET

Certified Public Accountants and Consultants
A Professional Corporation

200 East Carrillo, Suite 303
Santa Barbara, CA 93101
805-963-1837 Fax 805-564-2150

Yes, Social Media Can Raise Real Money

According to the Charitable Giving Report, online giving reached a record high last year, representing 8.5 percent of overall fundraising revenue. Since 2016, online giving has grown 17 percent with no signs of slowing.

One reason is Facebook. If you've been on Facebook recently, you've probably noticed requests to support a cause on behalf of a friend's birthday. Launched in August 2017, the Facebook birthday fundraising feature raised more than $300 million in its first year, and Facebook now waives its fee on every birthday-related donation.

Facebook currently has about 750,000 charitable organizations approved for fundraising. For nonprofit organizations, getting approved is simple: You must be a U.S.-based 501(c)(3) organization, be registered with the IRS, have a tax ID number, and have a bank account registered with a licensed financial services institution.

Programs like the Facebook birthday feature are low-cost, low-effort ways to build awareness and raise incremental funds—but the key is getting your constituents to use them. Here are a few ideas to do so:

Gain reach: Keep your organization's online presence current and vibrant, and tag photos of your staff, board, volunteers, and donors to create greater reach and awareness.

Promote participation: Remind your staff, board, volunteers, and donors of online fundraising opportunities, and ask them to participate on your organization's behalf.

Create a bond: Use social media to thank your supporters and "claim" them as your own. Creating a public relationship can inspire individual supporters to reciprocate in a way that benefits your organization.

Online fundraising will no doubt continue to grow, and it will be interesting to see how other social media outlets integrate fundraisers into their platforms moving forward. It's wise to check state solicitation requirements to ensure compliance, and stay on top of this trend to take advantage of every type of fundraising opportunity.