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Profitable Solutions for Nonprofits

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Ways to diversify your revenue streams

Many nonprofits learned the importance of revenue diversification the hard way over the past two years. Unexpected reductions, or even elimination, of certain revenue streams had them scrambling to meet increased demand — or simply to stay afloat. So how can your organization achieve the greater financial stability that typically comes through diversification?

The case for multiple streams

Perhaps the most prominent argument in favor of revenue diversification boils down to "hedging your bets." Your organization could lose a large grant, a recession might dampen individual donations or government funding priorities could shift. But if you have other incoming revenue, it can minimize the disruptions while you look for ways to fill the gap.

Multiple revenue streams also can provide organizations with greater autonomy. If your nonprofit is overly reliant on a single funding source, it may have no choice but to accept certain constraints (for example, donor-imposed restrictions) that come with that funding. And expanding revenue streams can expand your nonprofit's network of connections. Connecting with a community foundation or major gift donor could give you access to people and entities with similar interests and means.

Additional streams to consider

If your organization determines that diversification is a good strategy (see "Watch your step" at right), you have several options, including:

1. Adding new income-generating products or services. Think about service fees or product sales that can generate earned income. One of the easiest solutions is to charge a fee for services you already offer. Say you provide tutoring for low-income students. You could charge students from wealthier families for the same service. You also could offer fee-based lectures or seminars related to your mission, live or online.

Watch your step

For all its benefits, revenue diversification isn't necessarily right for every nonprofit. Potential downsides exist, and each organization must assess whether the benefits outweigh the costs in their circumstances.

For example, it generally takes some time to get a new revenue stream up and running. Is your organization able to weather the associated costs without offsetting revenues? A new revenue stream also may have ongoing administrative costs that may concern some stakeholders who are sensitive to such expenses. Alternatively, keeping a lid on overall administration costs might require diverting resources from other programs or revenue streams.

Additional revenue streams could have the unwanted effect of "crowding out" private donations. Prospective donors who see that your nonprofit has landed new grants or government contracts may feel that their donations might not impact the organization and will instead donate to other groups.

Branded merchandise is a common revenue source. The possibilities are wide, from t-shirts, mugs and hats to items buyers can use to actually advance your cause. An environmental organization, for example, might sell reusable hemp bags or water bottles.

Bear in mind that you could end up subject to unrelated business income tax (UBIT) if your new product or service line isn't substantially related to your tax-exempt purpose. Your CPA can help you factor that into the equation.

2. Broadening your targets for contributions. There's no overstating the value of individual donors, but organizations can get complacent about their donor base. Don't just rely on your loyal donors — work to grow your overall donor base. That said, those loyal donors also are potential targets for major gifts. Research your regular supporters to determine if they have the wealth and philanthropic interests to make significant gifts. If so, start paying more attention to nurturing those relationships.

3. Teaming up with corporations. Corporations can shore up your revenues in several ways, from large-scale funding to small, project-based support. You could join forces with a company for a cause-related marketing campaign, with the corporation donating a percentage of the resulting sales. Perhaps a company would agree to a matching program.

Or a corporation could make in-kind donations. And don't overlook other types of contributions such as corporations that encourage their employees to volunteer.

4. Ramping up your grant applications. Pursuing grants takes time and resources, things some organizations don't have in excess these days. But, with such an abundance of grants out there, it's hard to ignore this revenue stream — especially as funders may be relaxing some of their requirements in the wake of the pandemic.

In the survey "Foundations Respond to Crisis: Lasting Change?" recently conducted by the Center for Effective Philanthropy (CEP), foundation leaders signaled that they plan to continue to reduce administrative burdens for grantees, such as grant application and reporting requirements. They also plan to increase unrestricted funding.

Exercise patience

Adding one or more revenue streams isn't an overnight process. It will take planning and preparation. You might, for example, need to establish new accounting processes and controls. In the long run, though, it can prove more than worthwhile. Just make sure you check with your tax advisor about potential UBIT issues. ■

New accounting rule could bring change to nonprofits' financial statements

A new accounting standard from the Financial Accounting Standards Board (FASB) appears on its face to apply only to financial institutions. But it could affect nonprofits that adhere to Generally Accepted Accounting Principles (GAAP). Among other things, Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, requires earlier reporting of credit losses on receivables, loans and other financial assets. It also expands the range of information considered in determining expected credit losses. The standard takes effect in 2023, so it's smart to review the details as soon as possible.

Current rule

Under the existing "incurred loss" standard, organizations recognize a credit loss only after a loss event has occurred or is probable. Before that point is reached, nonprofits record an allowance based on historical events. For example, based on previous experience, you might record an allowance for doubtful receivables in anticipation of future losses on them.

Critics have complained that this largely backward-looking model restricts an organization's ability to record expected credit losses that don't yet meet the "probable" threshold. In response, the FASB launched a project to better align the financial reporting on credit losses with the need of financial statement users for forward-looking information.

New requirements

After considering various models for reporting expected credit losses, the FASB settled on the "current expected credit loss" (CECL) model. This model measures and reports expected losses over the contractual life of the asset — generally starting at the initial recognition of the asset. The measurement of expected credit losses will be based on relevant information not just about past events, including historical experience and current conditions, but also the "reasonable and supportable" forecasts that affect collectability of the reported amount.

Several types of assets often held by nonprofits fall under the new ASU. They include:

- Trade receivables (generally, amounts billed for goods or services, such as merchandise, tuition, fees, membership dues and special event income),
- Held-to-maturity debt securities in an investment portfolio,
- Notes receivable and other loan commitments, and
- Lease receivables.

The ASU excludes promises to give, loans and receivables between entities under common control, and defined contribution employee benefit plan loans.

Some specifics

The ASU doesn't prescribe a method for estimating specific credit losses. Rather, it allows nonprofits to exercise judgment to determine which method is appropriate for their circumstances, including the nature of their financial assets. It also permits organizations to continue to use many of the loss estimation techniques currently employed, including loss rate methods, probability of default methods, discount cash flow methods and aging schedules. But the inputs used with those techniques will change to incorporate the full amount of expected credit losses and the use of reasonable and supportable forecasts.

In addition, under CECL, credit impairment is recognized as an allowance for credit losses, not as a direct write-down of the financial asset. The ASU doesn't establish a threshold for recognizing an impairment allowance, though, so organizations also must measure expected losses on assets with a low risk of loss. That means trade receivables that are current or not yet due will have an allowance. Under the current rule, such receivables might not require an allowance.

Act now

The new FASB standard will take effect for most nonprofits in 2023, although early application is permitted. To begin preparing for implementation of the CECL model, your nonprofit will need to review all of your financial assets to identify those within the standard's scope and determine the method you'll use to estimate expected losses. We can help. ■

Data analytics

Using technology to meet your nonprofit's goals

In today's technologically advanced world, data rules. But simply having highly relevant information will be of little use if your board of directors, management and staff don't know what to do with it.

So how can your organization harness the power of data? You can use it in day-to-day decision making and strategic planning, of course. But you can also use data to provide your stakeholders, donors and volunteers with up-to-date information about your fundraising, programming and outreach.

What is it?

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.

Data can come from both internal and external sources. Internal sources include your 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.

What are the advantages?

There are several potential advantages of data analytics for nonprofits. The process can help an organization:

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

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

For example, data analytics can serve a dual purpose when it comes to fundraising. First, it may provide a way to illustrate accomplishments for potential donors who demand evidence of program effectiveness. And second, analysis of certain data may make it easier to target those individuals most likely to contribute.

Initiatives to streamline operations or cut costs have the potential to 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.

What should be considered before purchasing?

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?

Data analytics can help a nonprofit organization validate trends, uncover root causes of problems and take a holistic view of its performance.

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 likely will be a poor investment.

Organization buy-in

It may be a good time to get started on a full program, or to revisit your current use of data and metrics. But remember, having a data analytics program is only as good as the people who use it. If your leadership and staff don't understand how to use it, that's money wasted. Take the time to educate everyone about the capabilities of data analytics and follow up to be sure it's being used effectively. ■

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Study finds positive signs for the future of nonprofits

The past two years have been challenging for nonprofits, but the "2022 Nonprofit Technology Trends Report," sponsored by Sage Intacct (a provider of cloud financial management), found encouraging signs for the future. For example, more than twice as many of the more than 900 nonprofit leaders surveyed (44%) saw more of a revenue increase in 2021 than in 2020 (21%). Of those organizations with higher revenues, 34% enjoyed increases of more than 25%. And giving was higher across all types of funders — individuals, corporations and governments.

Moreover, both individual and government funding seems to have rebounded in 2021. Thirty-five percent of respondents reported that individual giving rose, and 37% said corporate giving increased. Only 13% of organizations predicted a drop in revenue for the current year, compared to 36% in 2021. Of those forecasting a reduction, 72% expected a decrease of less than 25%. ■

A Golden Girl's legacy to nonprofits

The loss of actress Betty White in December 2021 generated more than just waves of admiration and grief. It also kicked off a fundraising boom for a wide variety of charitable organizations. White was well known as an advocate for animals, leading to a posthumous surge in giving to several animal-related organizations that she was involved with, including the Greater Los Angeles Zoo Association (GLAZA).

According to *The Nonprofit Times*, the Columbus Zoo and Aquarium's Partners in Conservation made a grant of $40,000 to the Gorilla Doctors, which protects gorillas in East Central Africa, in White's honor. In addition, a viral social media campaign (#bettywhitechallenge) encouraged $5 donations to animal rescues or shelters in observance of what would have been White's 100th birthday in January of this year. Even before that day, numerous rescues and shelters reported receiving thousands of dollars in her memory. ■

Why more nonprofit employees qualify for loan forgiveness

The U.S. Department of Education (DOE) has revamped the Public Service Loan Forgiveness (PSLF) program that's intended to provide debt relief to student borrowers who go into public service, including some nonprofit employees. The DOE says its overhaul will result in more than 550,000 borrowers with consolidated loans seeing an increase in payments that qualify toward eligibility for forgiveness. The average borrower will receive another two years of progress toward forgiveness.

Among other significant changes, the DOE is providing a temporary opportunity for borrowers to get credit for all prior payments they've made, even those that wouldn't otherwise count toward PSLF. Any prior payments made while working for a qualifying employer will count, regardless of loan type or repayment plan. To receive these benefits, borrowers will have to submit a PSLF form by October 31, 2022. More information can be found at https://studentaid.gov/manage-loans/forgiveness-cancellation/public-service. ■

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Don't Be Left Cyber-Defenseless

Eight Tips for Shoring Up Your Defenses

Most U.S. organizations process important information every single day. When that information is sensitive in nature, its value skyrockets, and hackers will seek to obtain it by any means necessary. According to the Federal Bureau of Investigation Internet Crime Report 2021, the FBI's Internet Crime Complaint Center received over 847,376 complaints in 2021 with potential losses exceeding $6.9 billion.

Unfortunately, you can't stop your organization from being targeted, but there are ways that you can shore up your defenses so that you will be prepared if threat actors strike.

Know the "Why"

Hackers hack for a variety of reasons, but the most common reason is financial gain. To them, your employees' social security numbers, your customers' credit card information, and your organization bank account information are as good as cash. Know the data that your attackers are after so that you can protect the right assets.

Bolster Your Defenses

Most organizations have a data protection system in place, but it's important to review your plan regularly. The following eight defenses should always be included in a comprehensive cybersecurity policy.

- **Be Familiar with Common Attacks** Understand what types of attacks are common in your industry. Is it ransomware? Wire fraud? Phishing? Malware? Denial of Service? If you implement a new automation, what type of vulnerability does that introduce to your organization? Follow news sources to stay current on emerging threats.
- **Train Your Employees** Hackers are well aware that your employees are entry points into the system. Education and buy-in from management is essential. Make sure your employees agree to and understand the importance of your cybersecurity policy, and remind them of it frequently.
- **Don't Forget about Patching** Anti-virus software is a no-brainer for most organizations, but patching that software often gets overlooked. If you do not trust yourself to patch your software regularly, hire a company who will do it for you. The added security will be well worth the price.
- **Segment Your Networks** Employees should only have access to applications that help them do their jobs. If you can, segment your networks so that access to sensitive data and key applications is only granted to the employees who absolutely need it.
- **Monitor Logs** A quality IT system will record and save system activity. By regularly reviewing those logs and using AI technology to pinpoint abnormalities, you can uncover a potential hacker's attempts before they gain access to your systems.
- **Have a Written Incident Response Plan** Most organizations will be the targets of hackers at some point during the lifespan of their operations. Outline a plan to control attacks so that you can halt data leaks as quickly as possible. The longer a breach remains uncontrolled, the more dire the consequences.
- **Create System Backups** In the event a cybersecurity incident occurs, your backups can make all the difference. Regularly back up your data, and test to make sure it can be recovered quickly when some of your key systems are down.
- **Research Cyber Insurance** Cyber insurance coverage is excluded from most policies, so ask your provider what they offer. If they don't offer a cyber insurance rider, seek out a new or additional provider, and perform a cost-benefit analysis to see if it will be worth the cost to your organization.

Although cyber attacks are increasingly common, ensuring that your cyber defenses are sound is the best way to protect your organization.