Nonprofit Academy
Operations Track: Accounting

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CPAs AND ADVISORS

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AGENDA

1. Donor Engagement in a Virtual Environment
2. Personnel – Hiring and Retaining
3. Financial Best Practices
4. Nonprofit Ratios
5. Budgeting
6. Tax Update

DONOR ENGAGEMENT IN A VIRTUAL ENVIRONMENT

WHY ARE WE STILL TALKING VIRTUAL?

- New normal – not everything will go back to the way it was
- Video is here to stay – effective and efficient
- Online content (data from donorrelationsguru.com)
  - In 2020 96% of consumers increased their online video consumption
  - 78% of people watch online videos every week
  - In 2022 average person spends 100 minutes per day watching online video
  - In 2022 it is estimated that 82% of all internet traffic will come from streaming videos and downloads

INCREASED VIDEO CONTENT = OPPORTUNITY FOR INCREASED DONOR ENGAGEMENT

- Powerful way to tell an emotional story
- Timely and real
- Two minute maximum (to avoid drop off)
- 57% of people who watch nonprofit videos make a donation
  (from donorrelationsguru.com blog)

OTHER TECHNOLOGY

- Email
  - Used for thank you notes, welcomes, stories, surveys, etc.
  - Planned series to engage and retain donors
- Video conferencing
- Other specialized software
  - Donor Perfect
  - ThankView
  - Docu-sign
  - Etc

WHAT IS THE ROI?

Consider and Invest in:

- Attracting donors
  - Donor Acquisition Cost (DAC) = total costs / total # of acquired donors
  - Lifetime Value (LTV)
- Retaining donors
  - Urban Institute study in 2014 – for every $100 raised, $92 is lost
  - LTV
- Retaining development team
  - Cost of employee turnover ranges from 30% to 400% of annual salary (Deloitte study)
  - Potential loss of connection to donors

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DEVELOPMENT BUDGETS

Plan for:

- Technology
- Engagement plans for
  - Top donors
  - Other donors
- Impact reporting
- Team development
- Professional development

PERSONNEL – HIRING AND RETAINING

CONSIDERING REMOTE EMPLOYEES?

- **Pros for Having Remote Employees**
  - Health Precautions and Social Distancing Made Easier
  - Flexibility for Employees
  - More Efficient Time Management
  - Cost Savings
  - Scalability
  - Location of Talent
  - Cross-Pollination of Talent
- **Cons for Having Remote Employees**
  - Decreased Employee Engagement
  - Difficult Interview and Selection Process
  - Loss of In-Person Training
  - Social Isolation

HIRING IN THE AGE OF THE REMOTE WORKER: THREE WAYS TO BE MORE EFFECTIVE

Navigate Compensation Complexities

Increase Work-Life Balance for Employees

Broaden Your Talent Pool

THREE WAYS TO HIRE MORE EFFECTIVELY

- 1. Carefully Navigate complexities regarding compensation
  - Many employers are considering one of two compensation options:
    - Set remote worker pay rates based on local, regional, or national standards for the employee's area: or
    - Base the remote worker's pay on the overall structure for the position, set by the organization's main location
- 2. Broaden your talent pool access exponentially
    - One of the greatest advantages of hiring remote employees is the ability to recruit outside of your immediate geography, so don't be afraid to pursue candidates who may be located far beyond your footprint
- 3. Increase work-life balance for employees
    - Instead of fearing the impact of this away-from-office shift on your organization, use its benefits to your advantage when it comes to recruiting remote workers

WHY RETAINING IS JUST AS IMPORTANT AS RECRUITING

- The Act of Recruiting Employees Demands the Act of Retaining Employees
  - *Unless you focus on retaining the employees you have, you could find yourself caught in a revolving door of hiring new team members to fill newly-open roles but, your tactics for retaining your team don’t have to be limited to scrambling to provide counteroffers*

WAYS YOU CAN BE PROACTIVE TO KEEP YOUR PEOPLE ENGAGED TO YOUR COMPANY IN TODAY'S TIGHT JOB MARKET

1. Provide growth opportunity for your team

- Your team members want to know that there are opportunities for advancement
- Remember that not all advancement opportunities are financial. What makes your organization different when it comes to the way you're committed to investing in your people?
- Communicate directly with your current employees to learn how they want to grow and how those wants align with your company's overarching goals.

2. Foster a culture of positive feedback and encourage relationship building among employees.

- Many employees leave organizations because they feel their organization doesn't listen to them
- Don't just give feedback about what your team members need to change, but enforce what they do well and how they add value to projects and your organization as a whole
- Create a culture of showing appreciation from the top down and in peer-to-peer interactions. Give recognition when it's deserved!

WAYS YOU CAN BE PROACTIVE TO KEEP YOUR PEOPLE ENGAGED TO YOUR COMPANY IN TODAY'S TIGHT JOB MARKET (CONTINUED)

3. Equip your organization's leaders with a culture strategy

- If your organization has identified certain values or principles that communicate your identity, use that as a starting place for understanding your company's culture
- If your company professes philosophies externally, make sure that your organization is living it out internally.
- Knowing your identity as an organization (and what that identity means for the people who work at your organization) can go a long way.

4. Get an outside perspective

- Check in with others outside of your organization who can offer an unbiased perspective about how you are building up your team
    - Is the salary you're offering competitive with similar organizations? Are your benefits comparable?
    - Are you differentiating your company enough from your competitors?
- When you're able to tap into an unbiased, yet informed opinion, you're more likely to identify any blind spots and make improvements you might not have even noticed otherwise

FINANCIAL BEST PRACTICES

FINANCIAL BEST PRACTICES (AND WHY THEY ARE DEPENDENT ON TIMELY AND ACCURATE FINANCIAL REPORTING)

- The best practices that lead to accurate and timely financial reporting are never a one-and-done event. They are a continuous process and include:
  - Budgeting
  - Monthly reporting to the Board of Directors
  - Annual reporting to the IRS (Form 990)
  - Annual reporting to other external stakeholders (audited financial statements, annual program reports, annual reports)

FINANCIAL BEST PRACTICE #1: BUDGETING

- The budgeting process is much more than a formality. Budgeting is key among the best financial practices because it sets the bar for an organization's financial performance.
- Budgets should be created in line with a set budget policy, and they should reflect accurate data from the past and present, as well as sound forecasting for the future. But budgeting doesn't end after the Board of Directors gives its approval. It's important to continue to monitor your budget-to-actual performance monthly in case you need to make revisions due to unexpected events.

TERMS TO KNOW

Budget – A budget is the plan for the organization stated in terms of money.

Financial Best Practice #2: Monthly Reporting to the Board

Providing monthly reports to your Board of Directors is another financial best that contributes to accurate and timely financial reporting. It's best to have your Board review your organization's financials statements, budget-to-actual reports and any relevant key performance indicators once each month.

Management and the Board of Directors need to be able to review and understand the financial information that is presented to them in order to identify potential problems. This review and understanding is a part of their fiduciary duty

TERMS TO KNOW

Financial Statements – Financial statements are the primary way of communicating important financial information to stakeholders. At a minimum, financial statements should include:

- A statement of financial position (which shows the organization's assets, liabilities and net assets);
- A statement of activities (which shows the organization's revenues and expenses); and
- A statement of cash flows (which focuses on the liquidity of the organization).

FINANCIAL BEST PRACTICE #2: MONTHLY REPORTING TO THE BOARD (CONTINUED)

- Potential warning signs that management and the Board should be looking for include:
  - Increasing rates of expenditures
  - Growing debt balances
  - Defaulting on debt obligations
  - Continued declines in cash balances
  - Borrowing from reserves to pay current expenses
  - Continued budget overruns
  - Increasing number of employees needed to provide the same services
  - Declining investment returns that are disproportionate to trends in investment yields
  - Declines in volunteer hours
  - Declines in numbers of constituents served

TERMS TO KNOW

Assets – Assets are resources owned by an organization that are expected to benefit the organization in the future.

Liabilities – Liabilities are obligations of the organization that will be paid by cash, by the transfer of other assets or by the provision of services.

Net assets – Net assets are simply an organization's total assets minus its total liabilities. (At the end of the day, net assets are what is left.)

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FINANCIAL BEST PRACTICE #3: ANNUAL REPORTING TO THE IRS (FORM 990)

- One component of financial reporting, and a required financial best practice that is often not given the attention it needs, is the preparation of the Form 990. Making sure that the information on the Form 990 is accurate is essential. The Form 990 is an opportunity for a nonprofit organization to tell its story.
- While the IRS is commonly associated with the Form 990 (and rightly so), it's important to remember that the Form 990 is also used as a resource by many others to learn about an organization.
- Watchdog agencies, like Charity Navigator, use the Form 990 to rate charities based on financial health and accountability and transparency. When considering what organizations to donate to, many donors rely on these watchdog agencies, and thereby, the information on the Form 990.
- Therefore, if a nonprofit organization isn't taking the time to make sure the information in its Form 990 is accurate, they may be hurting their overall image in the eyes of donors.

FINANCIAL BEST PRACTICE #4: ANNUAL REPORTING TO EXTERNAL STAKEHOLDERS

- Accurate financial reporting is also imperative for outside stakeholders, including donors, volunteers and funders.
- From a donor's and volunteer's standpoint, people want to give their time and treasures to organizations that are financially stable. From a funder's standpoint, most major funders require organizations to provide some level of financial reporting. From either standpoint, if the financial reporting that is provided is not accurate, organizations can risk both financial and reputational damage.
- Financial damage could include donors choosing to donate to another organization, or funders deciding to discontinue funding (or requiring funds to be returned). Reputational damage could occur in situations where inaccurate reporting is a result of fraud, negligence or other misappropriation.
- At least once each year, nonprofits should make their audited financial statements, annual program reports and the organization's annual report available to external stakeholders.

TERMS TO KNOW

Audit – An audit is the verification of the organization's financial statements by an independent auditor. An audit may be required by funders or by an organization's bylaws.

Key Performance Indicators – Often referred to as KPIs, these are ratios or other measurements that measure an entity's performance

NONPROFIT RATIOS

Nonprofit Ratios: How to Use Them and What They Measure

Below are 10 of the most common nonprofit ratios that are often used both internally for organizations to measure themselves, as well as by external donors and watchdog agencies (such as Charity Navigator) to rate a nonprofit organization's performance.

Nonprofit Ratio	What It Measures
Program Expense Ratio	The percentage of expenses that a nonprofit organization is spending on its core mission
Administrative Expense Ratio	The percentage of an organization's expenses that are being allocated to administrative costs
Government Reliance Ratio	Reliance on governmental funding
Personnel Expense Ratio	Personnel costs of producing revenue
Fundraising Efficiency Ratio	How much revenue is being generated for every dollar that is spent on fundraising
Current Ratio	The overall liquidity of a nonprofit organization
Cash Reserves Ratio	The adequacy of an organization's resources that are available to support its mission
Accounts Receivable Turnover Ratio	Trends in the aging of an organization's accounts receivable
Leverage Ratio	How reliant an organization is on debt
Net Margin Ratio	An organization's ability to operate at a surplus

NONPROFIT RATIOS

1. Program Expense Ratio

- The program expense ratio measures the percentage of expenses that a nonprofit organization is spending on its core mission.
- This nonprofit ratio is key in the eyes of donors. Charity Navigator generally gives the highest rankings to those organizations whose ratio of program expenses is 85% or higher of their total expenses. Other agencies, such as the Better Business Bureau's Wise Giving Alliance, recommend a ratio of 65% or higher.
- The program expense ratio is calculated as follows:
- **Program Services Expenses/Total Expenses = Program Expense Ratio**

NONPROFIT RATIOS (CONTINUED)

2. Administrative Expense Ratio

- The administrative expense ratio measures the percentage of an organization's expenses that are being allocated to administrative costs.
- This nonprofit ratio is often misunderstood. There is an "overheard myth" that organizations shouldn't spend money on administrative expenses. This is simply unsustainable. In order to stay competitive and to keep up with technology and infrastructure, organizations need to spend money on overhead.
- Charity Navigator generally gives its highest rankings to organizations that spend less than 15% of expenses on overhead. The Better Business Bureau's Wise Giving Alliance recommends a ratio of less than 35%.
- The administrative expense ratio is calculated as follows:
- **Administrative Expenses/Total Expenses = Administrative Expense Ratio**

NONPROFIT RATIOS (CONTINUED)

3. Government Reliance Ratio

- The government reliance ratio measures a nonprofit organization's reliance on governmental funding.
- This nonprofit ratio is important, particularly when overall levels of government funding are declining. The higher this ratio is, the less likely a nonprofit organization will be able to continue to support its programs in the event that funding goes away. Organizations with high ratios in this category should consider how they can diversify their revenue sources.
- The government reliance ratio is calculated as follows:
- **Government Grants and Contributions/Total Revenue = Government Reliance Ratio**

NONPROFIT RATIOS (CONTINUED)

4. Personnel Expense Ratio

- The personnel expense ratio measures the personnel costs of producing revenue.
- The benchmark for this nonprofit ratio may look different for each organization, depending on how service-based the organization is.
- For example, an organization that provides counseling services may have a higher ratio than an organization that provides information and advocacy. Organizations should look for trends in this ratio. If it’s costing more to generate the same level of revenue, it could be a sign that there are inefficiencies in operations.
- The personnel expense ratio is calculated as follows:
- **Total Salaries, Wages and Benefits/Total Revenues = Personnel Expense Ratio**

NONPROFIT RATIOS (CONTINUED)

5. Fundraising Efficiency Ratio

- The fundraising efficiency ratio measures the efficiency of an organization's fundraising activities. Simply put, it measures how much revenue is being generated for every dollar that is spent on fundraising.
- A lower ratio is considered better, and Charity Navigator gives its highest ratings to those organizations that spend less than $.10 for every dollar raised. This equates to a ratio of 10.0 to 1.0, and can be calculated as follows:
- **Total Contributions/Fundraising Expenses = Fundraising Efficiency Ratio**

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NONPROFIT RATIOS (CONTINUED)

6. Current Ratio

- The current ratio is used to measure the overall liquidity of a nonprofit organization.
- In its simplest form, it shows how many dollars of current assets an organization has to cover its current obligations. The higher the ratio, the more liquid the organization.
- As a rule of thumb, organizations should strive for a current ratio of 1.0 or higher. An organization with a ratio of 1.0 would have one dollar of assets to pay for every dollar of current liabilities.
- The current ratio for nonprofits is calculated as follows:
- **Current Assets/Current Liabilities = Current Ratio**

NONPROFIT RATIOS (CONTINUED)

7. Cash Reserves Ratio

- The cash reserves ratio, sometimes referred to as the defensive interval ratio, measures the adequacy of an organization's resources that are available to support its mission.
- This nonprofit ratio looks at how many months of cash are on hand to cover expenses. The recommended range for cash reserves is three to six months.
- The cash reserves ratio is calculated as follows:
- **Unrestricted Cash and Liquid Investments/Average Monthly Expenses (less Depreciation and Other Noncash Expenses) = Cash Reserves**

NONPROFIT RATIOS (CONTINUED)

8. Accounts Receivable Turnover Ratio

- The accounts receivable turnover ratio is used to show trends in the aging of an organization's accounts receivable.
- The benchmark depends on an organization's typical payment terms. For example, if an organization's typical payment terms are net 30 days, then you would expect the accounts receivable turnover to be around 12 times per year (every 30 days).
- If the accounts receivable turnover for the same organization was nine times a year (every 40 days), it would be an indicator that the organization was having difficulty collecting its receivables on a timely basis.
- The accounts receivable turnover ratio is calculated as follows:
- **Net Sales/Average Accounts Receivable = Accounts Receivable Turnover**

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NONPROFIT RATIOS (CONTINUED)

9. Leverage Ratio

- The leverage ratio measures how heavily leveraged an organization is. In other words, how reliant is an organization on debt?
- A lower score is better here, with the top-rated charities generally having ratios of less than 5% to 10%. Nonprofits should also pay attention to increasing trends with this ratio. An increasing leverage ratio could be a sign of financial trouble for an organization.
- The leverage ratio is calculated as follows:
- **Total Liabilities/Total Assets = Leverage Ratio**

NONPROFIT RATIOS (CONTINUED)

10. Net Margin Ratio

- The net margin ratio measures an organization's ability to operate at a surplus. In simple terms, it's what is left at the end of the day to reinvest into an organization's mission.
- Nonprofits should not be expected to not make a profit. They should, however, be expected to be good stewards of the profit that is generated. In addition, continued negative trends in the net margin ratio can be an indicator of poor financial management.
- The net margin ratio is calculated as follows:
- **Total Revenues less Total Expenses/Total Revenues = Net Margin Ratio**

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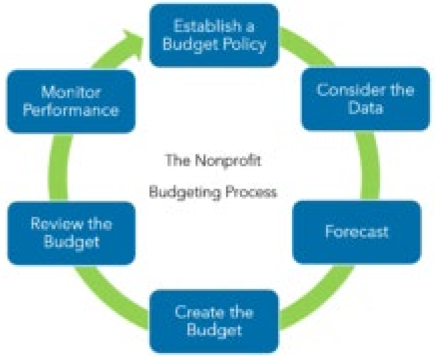
BUDGETING

HOW TO MAKE A NONPROFIT BUDGET (SIX STEPS FOR SUCCESS)

- A nonprofit's budget sets the bar for the organization's financial performance. Budgeting plays a significant role in maintaining accurate and timely financial reporting, which allows nonprofits to be financially healthy.
- But budgeting isn't just a box to check after plugging numbers into a spreadsheet. Creating a nonprofit budget that will set your organization up for success requires a thoughtful process that considers multiple factors that are specific to your organization



#1: ESTABLISH A BUDGET POLICY FOR YOUR NONPROFIT

- First, organizations should establish a budget policy.
- A budget policy may vary depending on your specific organization and need, but at a minimum, this policy should include the purpose of the budget, the guidelines for each department to follow and the budget timeline.
- Before you begin creating a budget, it's important to create these guardrails for the process and communicate them with those parties who are charged with the financial governance.
- This document should serve as a helpful reference as you build the budget itself to keep you on course.

#2 GATHER AND CONSIDER RELEVANT DATA

- Second, both historical data and the current environment should be considered as a frame of reference when developing the budget.
- How has your organization performed in light of relevant ratios and key performance indicators in the last few years? What is your current financial situation in today's economic environment? Have you reached the recent financial goals you have set for your nonprofit?
- It's important to know where you've been, where you want to go and whether that goal is attainable considering the current climate. Gathering this information before you begin crafting a budget will allow you to make the most practical and informed decisions about your organization's finances.

#3 FORECAST THE NEXT YEAR

- Next, your revenues and expenses should be forecasted for the year based on the information that has been gathered in the previous step.
- Forecasting shouldn't be a shot in the dark; rather, it should be a methodical process that takes into account all relevant information. Consider what you believe the next year may hold for your nonprofit, including likely external influences, internal activities and how your organization will plan for and respond to them financially.

#4 CREATE THE BUDGET

- Once you have a full picture of the past and present and have reasonably forecasted the future, it’s time to create the budget itself. Work with your key internal and external stakeholders to create a budget that is reflective of how you’ve done in the past and what you expect for the immediate future

#5 PROPOSE THE BUDGET TO THE BOARD OF DIRECTORS

- Once the initial budget is prepared, it should be reviewed and approved by the Board of Directors. Your Board of Directors has a fiduciary responsibility to your nonprofit and its stockholders, so it's important that they not only review and approve the budget, but that they are equipped to understand the information being presented to them.
- The approved budget becomes the roadmap for the organization's operating performance

#6 MONITOR PERFORMANCE AND REVISE THE BUDGET AS NECESSARY

- Finally, monitoring is a key component of the budgeting process.
- Budget-to-actual performance should be reviewed monthly by both management and the Board. Budget-to-actual variances could be a sign of personnel issues, funding problems or poor financial management. It could also be a sign that significant changes in the operating environment have occurred and that the budget should be revised.
- Take COVID-19 for example. If an organization that held summer camps was forced to close its camps due to COVID-19, a budget-to-actual report showing summer revenue significantly less than budgeted would not be helpful.
- Rather, a revised budget showing no anticipated revenue would help the organization to be proactive in determining how to continue to cover expenditures without the same level of income as originally anticipated.
- For this reason, it's important for organizations to be flexible and to revise the budget upon the occurrence of significant unplanned events

TAX UPDATE

TAX UPDATE

From the IRS

- Recap of Fiscal Year 2021 (FYE 9/30/2021)
  - 3,681 exempt organization examinations started with 3,249 closed;
    - *Examinations driven by -*
      - *referrals (internal in collaboration with other areas of IRS & external);*
      - *data from filed returns; and*
      - *implemented strategies focusing on noncompliance.*
  - 82% resulted in a tax change;
  - 94 revocations proposed;

TAX UPDATE

From the IRS

- IRS Electronic filing mandates
  - Forms 990/990-T/990-PF required for tax years beginning after July 1, 2019;
  - Form 990-EZ required for tax years ending after July 31, 2021;
    - *IRS to provide reminder notification using Letter 6194*
  - Form 1023 effective January 1, 2020;
  - Form 1024 effective January 3, 2022 (Rev. Proc. 2022-8).

- Key to aiding Service in paper backlog.

TAX TOPICS

Employee Retention Tax Credit

- Terminated as of October 1, 2021
  - *If advance credits received, organizations must have repaid by the due date of their fourth quarter 2021 payroll returns.*
- Possible that organizations can qualify and amend prior period payroll returns to receive eligible credits.
- Do not expect swift resolution if amended returns are filed.
- https://warrenaverett.com/insights/employee-retention-payroll-tax-credit/

TAX TOPICS

From the IRS

- What's ahead in fiscal year 2022?
  - Continued collaboration with examinations between IRS areas such as high-income individuals and retirement plans.
  - Focus on new issues such as COVID related employer tax credits abusive charitable remainder trusts.
  - Continued focus on existing compliance issues such as private benefit & inurement, and conservation easements.

BY THE NUMBERS

800+ EMPLOYEES

15 OFFICE LOCATIONS

ALABAMA	Anniston | Birmingham | Cullman Foley | Huntsville | Mobile | Montgomery
FLORIDA	Destin | Fort Walton Beach Panama City | Pensacola | Tampa
GEORGIA	Atlanta
TEXAS	Houston
CAYMAN ISLANDS	Grand Cayman

6 CLIENT SOLUTION GROUPS

Traditional Accounting

Corporate Advisory Services

Risk, Security & Technology

HR Solutions

Finance Team Support

Personal Services

3 MAJOR ALLIANCES/ MEMBERSHIPS

AN INDEPENDENT MEMBER OF BDO ALLIANCE USA

PCAOB PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

AICPA EBPAQC Member

RECOGNITIONS

Forbes 2022
AMERICA'S BEST ACCOUNTING FIRMS
POWERED BY STATISTA

Named to Forbes 2022 List of America's Best Tax Firms and Accounting Firms

Named one of Atlanta's Top Workplaces

Source: Atlanta Journal-Constitution

Named Largest CPA Firm in Birmingham

Source: Birmingham Business Journal

Named one of Tampa's Top Workplaces

Source: Tampa Bay Times

accountingTODAY
2021 Best Firms to Work For

Named as one of Accounting Today's 2021 Best Firms to Work For

RANKINGS

3 **Largest CPA firm among Gulf Coast states**

Source: Accounting Today 2021

6 **Largest CPA firm in the Southeast/Gulf Coast combined**

Source: Accounting Today 2021

38 **Largest CPA firm in the U.S.**

Source: Accounting Today 2021

47 **Most Prestigious Accounting firm in the nation**

Source: Vault 2021

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WHY WARREN AVERETT

When your accounting firm behaves more like a financially minded business advisor than a transactional vendor, your company benefits throughout the year–not just during typical financial deadlines. Warren Averett takes care of the details, so you can get back to business as usual.

Consistent Support As You Change and Grow

Customized Approach

Just-Right Regional Service

Leadership Available to Every Client

Bench Strength Through BDO

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QUESTIONS?

THANK YOU!