Grant Thornton

The State of the Not-for-Profit Sector in 2017

Fourth annual report

> From the very beginning, Grant Thornton team members have treated us as if we were their most important client. Not only are they extremely capable and experienced, but also they work professionally and respectfully with our team. Grant Thornton clearly adds value in all of our interactions — calling on multiple subject matter experts within the firm to best serve our needs.

Mike Carscaddon, CFO, Habitat for Humanity International

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Introduction

Leaders of not-for-profit organizations have new opportunities, technologies and analytical tools to help their organizations thrive. They now have more information at hand to make better-informed decisions, new technologies to exploit, and potential transformative initiatives to undertake in programmatic and administrative execution.

Leaders are likewise dealing with rising challenges in identifying new revenue sources and funding, cost containment, workforce changes, regulatory requirements, and finding ways to mitigate or at least respond to organizational risks.

This is a time of great potential for reaching and serving a more diverse constituency, collaborating with other organizations and private industry, and using technology more strategically. Innovative thinking will be vital to successfully moving into the future.

In this, our fourth annual *State of the Not-for-Profit Sector* report, we offer you our experience-based viewpoints and approaches that point the way to decision-making that will sustain organizations, positioning them for long-term success. While we will continue throughout the course of this year to provide webcasts, training and articles of interest to leaders in the not-for-profit sector, the editorial purpose of this publication is to cover the trends and issues we expect to emerge in 2017. As a leader in this sector, we believe it is our responsibility to give back to this community we serve by providing these valuable insights.

Within these pages, you will find our guidance and proposed solutions regarding important developments, challenges and opportunities facing not-for-profit leadership, with specific features for each of the key sectors our industry practice comprises — associations and membership organizations, foundations, Jewish and Israeli organizations, museums and cultural institutions, religious organizations, and social service organizations (we cover our seventh sector, higher education, in a separate publication, *The State of Higher Education in 2017*; see grantthornton.com/highered2017).

The articles in this report stem from knowledge gained through our professionals' direct interactions with their clients. Rather than theoretical pieces, they are the result of practical, hands-on experience gained by more than 400 Grant Thornton LLP professionals serving approximately 900 eminent not-for-profit clients. These insights are intended to be used by you — board members, executives, management, and other leaders and stakeholders in the not-for-profit sector.

Our Not-for-Profit and Higher Education practices are committed to helping "organizations that do good" fulfill their missions. We understand that enhancing quality, protecting reputation and maintaining operational sustainability are all essential to organizations' ability to achieve success and further their cause. Our not-for-profit experience is deep, and we offer it to assist nonprofit leadership with the challenges and opportunities addressed in this report.

On behalf of the partners and professionals of Grant Thornton's Not-for-Profit and Higher Education practices, I am pleased to present *The State of the Not-for-Profit Sector in 2017*. We hope that you find this to be a valuable resource. As always, we welcome your feedback and are available to assist management teams and boards in addressing the challenges discussed in this report, or any other issues you may be facing.

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Watch Mark's introduction to the report.

Attracting, Retaining and Gaining the Most from Millennials

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In the competition for a dominant workforce generation — millennials — not-for-profit organizations and higher education institutions are uniquely poised to be victors. With *Harvard Business Review* citing 21% of millennials switching jobs in the past year (three times higher than nonmillennials),[1] and many drawn to careers and organizations that make a positive impact in the world, your organization has a natural head start. To win their hearts and minds, and gain an advantage over competing organizations, it is critical to pay attention to the characteristics that define the millennial generation. If millennials are engaged properly, your organization can not only attract them to work for you, but also capitalize on the skills and passions that make millennials well-qualified to help your organization succeed.

Millennials are a force worthy of engagement

These young people — born sometime between 1980 and 2000, depending on your source — currently make up about 34% of the workforce in the United States, surpassing baby boomers and Gen Xers to take the largest share, according to Pew Research Center's *Fact Tank*, and their percentage of the workforce will only continue to grow.[2]

Millennials value contributing to well-being

It is extremely important to millennials that they work for an organization whose purpose is to do good in the world. They will pledge their allegiance to an employer with whom they see an alignment between their personal sense of mission and the organizational mission. Because they are committed to social issues and making a positive impact, "…nonprofit jobs" give them the chance to champion a cause they care about," according to Nonprofit HR.[3]

Millennials are mobile

Because corporate giants and the majority of financial institutions generally cannot compete with not-for-profit organizations' social responsibility and mission-driven focus, you can attract and retain millennials in a way that for-profits can't. Press this advantage during recruitment by demonstrating the connection between employees' work and achievement of mission. To employees, report frequently about how their contributions affect the organization as a whole and the community; use data about outcomes and success stories — how their efforts directly helped make an impact on carrying out your organization's mission.

Make this a purposeful retention activity; employees leave for any number of reasons, but millennials are more likely than others to do so, especially if it is not made clear to them that their contributions to furthering the mission are valued. If they become disillusioned, millennials are not hesitant to move on; two in three expect to leave their jobs by 2020, according to a Forbes contributor.[4] Research by the *Harvard Business Review* found that between 2015 and 2016, three times as many millennials as other workforce groups quit to do something else, and 60% — higher than any other workforce generation — said they were open to taking other jobs.[5]

1 Rigoni, Brandon and Adkins, Amy. "What Millennials Want From a New Job," *Harvard Business Review*, May 11, 2016.
2 Fry, Richard. "Millennials Surpass Gen Xers as the Largest Generation in U.S. Labor Force," *Fact Tank*, May 11, 2015.
3 Alexander, Lisa Brown. *Why Millennials Are Not the Leaders of Tomorrow*, Nonprofit HR, Jan. 28, 2016.
4 Arvai, Peter. "How to Retain and Inspire Millennial Workers," *Forbes*, June 14, 2016.
5 Rigoni, Brandon and Adkins, Amy. "What Millennials Want from a New Job," *Harvard Business Review*, May 11, 2016.

Millennials are technology savvy, and social media use is essential to them

In the job itself, this generation raised on technology expects to be granted ongoing digital access.[6] Having grown up through the development of the internet, personal computers, mobile devices and social media, millennials have a sense of technological entitlement unmatched by previous generations. They are supremely sociable, and their desire to be in constant contact with colleagues is often perceived in a negative light. However, their networking skills can be utilized for unprecedented collaboration. Promote their interaction through technology, and provide technology — screen sharing and chat services — for the option to work remotely. Many not-for-profit organizations are in a position to offer this flexibility to employees because, in an effort to compete with for-profit companies on aspects other than compensation, they already offer alternative and flexible work arrangements, and adaptable work environments.

Beginning with recruitment and continuing on after employment, be socially interactive, communicating via millennial-preferred channels in social media.[7] This is still a challenge for many not-for-profit organizations, with the not-for-profit sector generally delayed in sophisticated use of social media to engage with potential and current employees. Break from the pack by working with your millennial employees or consultants to make effective use of technology-based networking. The investment pays off in employee satisfaction and retention, and in their promotion of your organization through tweets and posts. For further guidance, see within this report *Furthering Engagement Through Creative Use of Social Media.*

Millennials have leadership drive

A value prized by millennials, according to the *Harvard Business Review*, is the "opportunity to learn and grow."[8] Millennials ranked this quality highest in evaluating a job or role change, and they ranked it higher than did other generations surveyed. Millennials want to have a part in changing the world. This puts not-for-profit organizations — their culture steeped in positive, impactful missions — at a great advantage.

Dedicate efforts to supporting millennials' drive to be "transformational" leaders and their desire for mentors.[9] Your organization can embrace these emerging managers, directors and executives by investing in retention through ongoing training, and providing leadership opportunities and mentorship. With the right attention to their needs, this generation can become an influential group within your organization.

If millennials are engaged properly, your organization can not only attract them to work for you, but also capitalize on the skills and passions that make millennials well-qualified to help your organization succeed.

[6] La Duke, Phil. "5 Ways to Attract and Retain Millennials," *Entrepreneur*, July 5, 2016.
[7] Alexander, Lisa Brown. *Why Millennials Are Not the Leaders of Tomorrow*, Nonprofit HR, Jan. 28, 2016.
[8] Rigoni, Brandon and Adkins, Amy. "What Millennials Want from a New Job," *Harvard Business Review*, May 11, 2016.
[9] Alexander, Lisa Brown. *Why Millennials Are Not the Leaders of Tomorrow*, Nonprofit HR, Jan. 28, 2016.

Additionally, your organization can home in on millennials' desire to effect the positive change they wish to see in the world by making participation in your organization's service accessible to them. Hands-on experience will give them a more deeply rooted passion for your organization. Keep them apprised of events; you will gain not only additional volunteers, but also employees who will be more connected to and fully engaged in your mission and strategic goals, further driving retention.

Millennials weigh student debt in job choices

As a group, millennials are saddled with more student debt[10] than are their older co-workers. Service and altruism aside, salary still ranks high on their priority list. While your mission will be important to them, they also need the chance to earn more. If your organization can't match market salary levels of for-profit organizations, perhaps you can offer a stronger compensation and benefits package.

Additionally, you should provide information about personal finance classes and programs such as the Public Service Loan Forgiveness Program,[11] which can forgive the remaining balance on federal Direct Loans after a specified number of payments are made by a full-time employee of a qualifying not-for-profit.

To secure a millennial workforce, provide an informal and flexible environment, including, if possible, the option to be remote, meaningful and challenging work, engagement through technology, non-salary-based benefits, and encouragement to channel social media on behalf of organizational initiatives. Direct the power of these current and future employees and leaders to embrace and deliver mission results for a cause to which they are committed personally and professionally.

[10] La Duke, Phil. "5 Ways to Attract and Retain Millennials," *Entrepreneur*, July 5, 2016.
[11] U.S. Department of Education. Public Service Loan Forgiveness Program webpage, accessed Jan. 30, 2017.

Moving Beyond ERM Theory to Real-World Implementation

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For as much as not-for-profit organizations have a healthy respect for risk and a desire to implement leading-edge enterprise risk management (ERM) programs, many still struggle with translating the theory they find in literature into a practical and effective program. There is no single, correct way to implement ERM, which leaves organizations to their own devices in interpreting ERM concepts as they attempt to adopt risk management protocols. This often leads to suboptimal efforts that fall short of achieving their objectives — or worse, to abandonment of ERM initiatives altogether.

However, effective implementation of ERM can indeed be achieved, and the common pitfalls that organizations face when designing an ERM program from scratch can be overcome. Success comes from utilizing a comprehensive, structured methodology, informed by the experience of others, to identify, evaluate, report and mitigate key risks to your organization. We offer these best-practices strategies — from organizations that have recently successfully deployed ERM or those that are currently in the midst of successful implementation — to overcome the challenges you will face and translate theory into meaningful, practical action.

Recognize that risks do not all have the same impact

Even the most introductory primer on ERM will tell you that you have to evaluate the impact of a risk. Put simply, risk impact is the degree to which you will be affected by a risk if it were to happen. However, not all risks will affect an organization in the same way. While senior leaders are typically adept at identifying their organization's top risks, they often perceive the impact of each risk, and what therefore constitutes an appropriate response, quite differently.

Example: A CFO might not perceive a significant impact associated with inaccurate reporting of nonfinancial data (e.g., program impact data) because it would not cause an appreciable change in revenue or expense. The vice president of communications, on the other hand, would be highly attuned to the consequences of negative press associated with such an incident.

The key is to recognize that impact has many different facets. In order to align discussions around why risks are significant and what should be done about them, we advocate dividing your analysis into types of impact:

- Strategic — Causes a strategic objective to fail
- Financial — Incurs unanticipated cost or reduces revenues
- Operational — Affects the quality or efficiency of how work gets done
- Reputational — Creates negative media attention
- Environmental, health and safety — Jeopardizes staff, volunteer or others' well-being
- Technology — Exposes applications, data, operating systems, network or infrastructure to inappropriate access/change
- Legal — Triggers arbitration or litigation against your organization

When evaluating risks, you should consider the resulting impact. One risk may have a high financial and technology impact, while another may be more reputational in nature. At times, one or more of the impact types won't apply at all. While these are typical impact categories, management may decide that other types of impact apply.

Success comes from utilizing a comprehensive, structured methodology, informed by the experience of others, to identify, evaluate, report and mitigate key risks to your organization.

Calibrate your discussion

Begin by creating guidelines for your risk evaluation framework. Whether you use a simple high/medium/low scale or a more complex numeric rating, document what qualitatively differentiates one risk rating from another. While business judgment is still an integral part of evaluating risk, setting parameters helps level the discussion and resolve differences of opinion by applying objective criteria.

> Example: The chief compliance officer is concerned about the risk of failing to comply with a regulation. She argues that it has a high impact on reputation and finances. Her research shows that when fines are imposed, they are usually between $25,000 and $50,000. The ERM committee refers to their calibrated risk evaluation framework and sees that they have previously determined that in terms of reputation, a risk would have to be noted on a national scale and/or cause their constituents to distance themselves from the organization in order for it to be considered to have a high reputational risk — an unlikely result in this case. They also note that a risk would have to deplete their reserves by $200,000 or more before they would consider it a high risk. Since there were no other discernible types of impact that apply, they decide that the risk of this lapse in compliance would have, at most, a medium impact on the organization.

Align your mitigation strategies

Successful ERM programs strive to ensure that the organization's risk management activities directly address the types of impacts expected.

> Example: A particular risk event may have significant financial, reputational and operational impacts. A comprehensive risk mitigation strategy should address all three areas. Financial impact mitigation may involve obtaining insurance, creating a reserve fund, etc. Reputational impact mitigation may include developing clear communication and media relations plans. Operational impact may be mitigated through creation or revision of disaster recovery and business continuity plans. Other risk management strategies may, of course, apply.

One of the common mistakes organizations make is ending the discussion after identifying a single mitigation strategy. This limits identification of additional mitigation strategies that can further reduce risk impact by addressing other potential outcomes of a risk event.

Establish your risk tolerance

Risk tolerance, or risk appetite, is the willingness to accept uncertain outcomes. We have found that in an attempt to define their risk tolerance to avoid either taking on too much risk or being unnecessarily cautious, organizations tend to create broad statements about their attitude toward risk.

While there seems to be very little written about how to define risk tolerance, the practical experience of organizations that are in the process of doing this effectively is that such definitions need to be less broad and more nuanced. It is not helpful to declare “we are risk-avoiders” or “we are risk-takers.”

To get started, we advocate establishing a risk tolerance scale. For example:

- Averse — Low tolerance for uncertainty; prefer the lowest risk option
- Cautious — Prefer to avoid risks but will accept some uncertainty if benefits are significant
- Accepting — Uncertainty is expected; prefer the option that maximizes benefits

There is no single risk posture for an organization to take. Rather, tolerance for risk will vary, depending on the nature of its impact. You can then establish your organizational risk tolerance along each of the types of impact. For example, you may be:

- Cautious about strategic risks
- Accepting of financial risks
- Averse to reputational risks
- Averse to health and safety risks

Assessment of tolerance serves as an important lens to determine if enough is being done when considering risk mitigation strategies. Aligning your risk mitigation strategy with risk tolerance can be further informed by gleaning lessons learned when risk events actually happen. You can answer questions like: “Did we accept more risk than we wanted?” and “Were we too conservative in our reaction to risk?” These answers will help you to continually shape and refine your ERM program.

Discerning Choices in Program-Related and Impact Investing

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First, a review of terms. **Program-related investments** (PRIs) are those held by an organization to accomplish its charitable purpose but not primarily for a financial return. **Impact, or mission, investing** is done not only for financial gain, but also to achieve social or ethical benefit. In many areas of the world, both types of investments are increasingly utilized in vital initiatives — green growth, sustainability, agriculture, education and employment.

As an example, one reason to lead your organization into utilizing either of these investments might be to respond to the uptick in requests for microloans. These small loans — to spur entrepreneurship and community development in struggling and emerging economies — are made at generally higher risk and less profitability than accepted by traditional financial institutions. Not-for-profits are focusing more attention on providing microloans, as financial needs in distressed areas have risen, especially in communities experiencing mounting strife, agriculture shortages and climate calamities.

Program-related and impact investments can exert a powerful influence in today's world, and with the economy improving, there is greater cash available to make such investments. These types of investments are no longer considered niche financing; they are moving to the mainstream. Given the increasing need for program/impact investments and their growing use as an important new source of funding, if your organization has not yet explored using this type of investing, it is time to take a closer look. To effectively leverage this power to confer essential benefits, see the insights below for a deeper understanding of the rules and how to maintain regulatory compliance.

While results are similar, investment vehicles take different routes

PRIs offer organizations — foundations and other not-for-profits — great flexibility in putting their resources to work in advancing charitable purposes, using such investment vehicles as equity investments and loans. Those investments must possess these characteristics: (1) the primary intent accomplishes one or more charitable purposes, (2) no significant purpose is production of income or appreciation of property, and (3) no spending is directed toward political campaigning or influencing legislation.

Given the increasing need for program/impact investments and their growing use as an important new source of funding, if your organization has not yet explored using this type of investing, it is time to take a closer look.

Impact investments also support an organization's mission/exempt purpose and are intended to generate a positive social and/or environmental impact. However, their main goal is generating revenue; because of this focus, they are not classified as PRIs. Impact investments tend to have a market rate of return, can be exposed to associated volatility, are subject to fiduciary and other regulations (e.g., prudent investor rules), and — importantly for foundations — do not offer the excise tax benefits of PRIs, as described below.

To help understand the differences between the two investment types, consider as an example an organization dedicated to the alleviation of worldwide hunger and a small farm operation in an underdeveloped country that is looking for investors because it hopes to grow and sell crops to sustain an entire village. If the organization invests in this operation, possibly in the form of a microloan, it would be considered a PRI, depending on its terms. If instead, the organization invests in a hedge fund that provides angel funding to farming initiatives in underdeveloped countries — with investments that may or may not filter down to this small farm operation — it would be considered impact investing. A PRI is direct and not intended to generate profit. An impact investment is indirect, with profit-making as a key intent. Since the goal of impact investing includes positive revenue generation, these types of investments can be attractive to a greater scope of investors — not only not-for-profits, but also for-profit entities that want to make a social statement or impact.

Understand vehicle opportunities and limitations

PRIs and impact investments are both tools for benevolence — they fund projects to create positive outcomes for the populations and communities that the investors serve. As benefits and results are demonstrated, they can prompt additional giving from advocates or supporters of the activities.

For private foundations, PRIs offer excise tax benefits. Since the investments are mission-driven, they are not considered jeopardizing investments subject to tax under Internal Revenue Code (IRC) Section 4944.[1] Rather, they count as a qualifying distribution under IRC Section 4942 for foundations' annual payout requirements, though paybacks reduce a year's distribution total when those repayments occur if any of the PRIs are loans rather than investments.[2] In addition, PRIs are exempt from the excess business holdings tax under IRC Section 4943.[3] Impact investing does not offer the same tax benefits, but, of course, still does provide funds for the overall mission of an organization.

Organizations committed to social responsibility can use PRIs and impact investments in achieving their missions and making a real difference for the communities they are helping, and for public charities, the rules are clear. But for private foundations, more clarity is needed. Specifically, until the IRS provides examples and explanations regarding how to utilize these investment vehicles while still meeting regulatory guidelines, private foundations will not likely join other organizations in making these types of investments, despite their considerable financial ability to do so.

A greater understanding of the unique characteristics of PRIs and impact investments can help your organization in decisions about its contributions to communities and constituents.

[1] IRS. "Private foundation — jeopardizing investments defined," Oct. 20, 2016.
[2] IRS. "Qualifying distributions of private foundations," Oct. 14, 2016.
[3] IRS. "Excess business holdings of private foundation defined," Oct. 14, 2016.

In Focus: Museums and Cultural Institutions Providing Personalized Patron Experiences

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Expectations in visiting a cultural institution are very different from those of even a few years ago. Previously, visitors might have been satisfied with returning to their favorite exhibits, venues and performances, passively taking in what was offered. Today, that won't do. Patrons assume a more customer-centric focus and expect some tailoring to their tastes and preferences.

Across the cultural sector, organizations must now work harder to engage and retain visitors. The one-size-fits-all approach is a thing of the past, as is the standard, tried-and-true offering. Visitors are looking for something beyond the shared group experience or repeating experiences that they have had in the past. It will take new thinking about how best to serve today's patrons to drive attendance and foster repeat visits, attract a more diverse constituency, increase membership and build stronger connections with donors.

For inspiration, consider some fresh and innovative ways to appeal to patrons and supporters.

Offer choices in personalized experiences

Generate a sense of connectedness through interactivity by catering to the creative impulses of your visitors. In many museums, exhibits respond to a personal keycard or tag. Visitors can register their preferences and enjoy a tailored experience as they move through the building. A record of these visits can be provided to the individual upon exit or by follow-up email as a reference for return trips. At some art museums, visitors are invited to create their own works of art, providing them a deeper insight into the artistic process and the methods used by the artists. History centers' curated exhibits about noteworthy past events have solicited visitors' personal memories, photos and connections with the events; the contributions become a vital part of the content. Performing arts groups have structured immersive performances in which patrons experience a perspective unique to each individual. Rather than viewing and listening only, these audience members find themselves in the middle of the action. They may be encouraged to explore the performance space as the show goes on around them, allowing them to choose what to see and what to skip, and even becoming a more active part of the performance, breaking the traditional **fourth wall** between performers and audience.

Use smartphone technology as "low-hanging fruit" to engage visitors with maps, in-depth content and analysis, and discounts in your shop and café, giving control to the visitor to connect to supplementary facts or videos and sign up for text messages about upcoming exhibits or events. Many emerging apps are available that can be customized to your organization and offered for specific demographics, e.g., kid-friendly games and educational information. Gratify those with a competitive drive through chances to earn badges or points that can be traded for discounts, gifts or special visitor privileges.

Extend the experience beyond your brick-and-mortar facility so that patrons and supporters can make further relevant connections to your organization. For example, a history center may offer digitized collections, and online seminars and lectures, group tours of historic sites, or satellite exhibits in public spaces.

Provide electronic tools to allow patrons to make reservations for special on-site viewings and access online high-definition video/audio for exhibits and performances when unable to visit in person. Here, too, furnish codes for redemption online or at your facility.

For further insights and ideas about using electronic data, see Grant Thornton LLP's *Museums and Cultural Institutions: Welcoming Big Data to Your Institution*.

Target individual donors with specialized and unique benefits

Leading institutions are beginning to develop customized perks for individual donors, moving away from the more traditional approach of tying tiered benefits to levels of membership and giving. Be creative with your promotions, and tailor them to your supporters' individual desires. Reward your most supportive patrons with an assortment of add-ons customizable to specific interests, e.g., special performances, exclusive pre- or post-event receptions, priority seating, express lines, souvenirs, discounts on gift shops and concessions, previews, lectures, seminars, cocktail and dessert parties, and wine-tasting events. Arrange for meaningful experiences, such as interacting with staff and experts from the institution, including social mixers, dinner with the executive director, talk-back Q&A sessions with curators or artistic directors, meet-and-greets with cast and staff, and input sessions for future offerings. These types of interactions provide education, entertainment and a sense of participation, all of which lead to higher levels of perceived value.

As you develop your offerings, customize them to the demographics of your audiences. Parents appreciate care for and engagement of their children; older patrons often value priority access and exclusive events, while younger patrons tend to be drawn to activities that stimulate a sense of belonging and directly support the organization or a particular cause.

We live in an age of expanding personalization, where we have the ability to tailor just about every aspect of our daily routine from ringtones to syrup pumps in our latte to the accent on our GPS voice navigation. Attract and retain visitors and supporters by prioritizing attention to individual needs and expanding options for customizing what you offer.

Patrons assume a more customer-centric focus and expect some tailoring to their tastes and preferences.

Furthering Engagement Through Creative Use of Social Media

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Social media is changing the way we give to charity — the success of the 2014 Ice Bucket Challenge made other not-for-profits want to be the next ALS Association, as over $230 million was raised and awareness of amyotrophic lateral sclerosis significantly increased. Contributions continue to be 25% higher than before the challenge, and the organization's donor base was broadened to include a younger generation as the average donor's age dropped to 35 from over 50. In 2016, the ALS Association announced that money raised by the Ice Bucket Challenge financed discovery of a new gene that is a common contributor to the disease.[1] There are numerous reasons why the challenge was so successful — the element of competition, the peer-to-peer aspect and the celebrity participation. However, what facilitated each of these individual aspects and, ultimately, was the strongest reason for its success was delivery via social media.

By utilizing social media tools selectively and creatively, not-for-profit organizations can engage and re-engage donors and volunteers while educating the public about their mission. Social media has always been more than just another way to disseminate information; it is about listening to what others are saying, engaging in dialogue and encouraging participation.

With so many users and so many kinds of social media, the question is no longer whether to be on social media, but how to be on it in a meaningful and effective way. Insights recently shared by Chris Clarke, senior vice president of marketing and communications for Habitat for Humanity International (Habitat), and a focus group of social media-savvy millennials can help your organization leverage social media to stay relevant, creative and engaging.

1. **Communicate your mission with stories and pictures.** Your social media competes for attention with similar efforts of other organizations, as well as with those of celebrities and your audience's friends. Your best chance at success is posting photos, videos and humanizing stories that are purposeful and authentic. Stories and photos that are difficult to look at, or sad or shocking tend to alienate the viewer. However, those that are uplifting, inspirational and show successes are received more positively, with greater likes and shares. One focus group member noted, "It should be less about what organizations are doing and more about the people they are serving."

With so many users and so many kinds of social media, the question is no longer whether to be on social media, but how to be on it in a meaningful and effective way.

[1] The ALS Association. "Breaking Research News: Ice Bucket Donations Find New ALS Gene!" accessed on Feb. 17, 2017.

2. **Use different tools for different goals.** Habitat utilizes a variety of social media, depending on the communication goals. For example, Facebook is Habitat's broadest form of social media with the largest number of followers. Facebook enables Habitat to post flexible content with photos, videos and links, as well as live video feeds. Twitter — with its bite-size messaging, and engaging questions and photos — is Habitat's fastest-growing form of social media because it is easy to share via retweeting and offers hosting parties (topical chats scheduled for followers). Pinterest's exchange of project ideas provides a logical connection to Habitat's home improvement ReStores.

   According to Clarke, "If content is relevant and helpful to an audience, followers will respond." This is especially true when the platform is appropriate; it is better to use a few well-chosen tools effectively than to use too many. Benefits vary by platform. A member of the focus group explains the difference between the educational potential of Facebook and the simplicity of check-ins on Instagram: "I can learn about a new organization or initiative on Facebook much easier than on Instagram. My engagement on Instagram is very quick, while on Facebook I may linger a bit longer to fully understand."

3. **One post should accomplish one goal.** Be deliberate about the intent behind each post and select only one intent per post. Clarke describes the three main engagement goals of not-for-profits on social media as those that motivate people to 1. like, 2. take a specific action or 3. donate. Typically the least successful posts are those that have multiple goals (e.g., a post that asks people to donate and also volunteer at an event).

4. **Interact with your followers.** Habitat invests in interaction with followers by promptly responding to questions and thanking users for positive comments. Social media, unlike traditional forms of marketing, tends to be a two-way dialogue that requires time and prompt attention.

5. **Stay clear of ads and direct donation requests.** With the inundation of pop-ups, viewers tend to skim over posts that resemble ads and direct pleas for donations. As a focus group member put it: "Figure out how to deliver your message without selling. If you are advertising to me, I'm moving on."

6. **Capitalize on celebrities, milestones and events.** Habitat's most successful posts have been stories about celebrity volunteerism and achievement of milestones, such as the number of families served and homes built. Focus group participants concurred that they tend to follow people rather than organizations, making celebrity partnerships a valuable element of a social media strategy, especially partnerships with those who actively promote the causes they're involved with on social media. Another effective strategy is to focus efforts around special events, such as the annual after-Thanksgiving #GivingTuesday, with its international encouragement of philanthropy.[2]

7. **Have a plan, but be ready to adjust it.** At Habitat, content is planned up to six weeks in advance. Clarke said the social-digital team develops a steady and varied flow of content and photos with inspirational captions, and teasers with links to expanded stories. Responses to followers' questions and comments are quickly provided and news stories are adjusted in real time to reflect current events. For example, when a national disaster happens, Habitat ensures that its content reflects up-to-date needs and challenges based on the circumstances.

[2] #GivingTuesday. "A Global Day of Giving," accessed on Feb. 17, 2017.

8. **Know your target market's platform choices.** Understand platform demographics so you can engage your target market (e.g., millennial donors lean toward Instagram and Snapchat, while baby boomers are more active on Facebook and LinkedIn). Focus group participants emphasized that they are reached by organizations active on the channels they frequent. For more insights about reaching millennials, see within this report *Attracting, Retaining and Gaining the Most from Millennials.*

9. **Stay on or ahead of the curve.** Be constant in your social media activity; check out and, as appropriate, utilize new tools as they become available and popular, such as Facebook live events posts, Twitter parties and Snapchat Spectacles; watch for what's next to keep your organization relevant when it comes to social media.

10. **Leverage the power of friends and connections.** Focus group members said that the majority of their social media interactions with not-for-profits were actually the result of links passed along by friends rather than through direct initial contact with the organizations themselves. Challenges, fundraising and other events that are shared by personal connections passionate about specific causes will do better in catching users' attention and motivating engagement than will direct requests from organizations. Peer-to-peer challenges, such as the Mannequin Challenge and No-Shave November, can be expected to do well because of the natural interest in community and collaboration, as well as friendly competition, as attested by a focus group member who said she has donated to causes most often when friends called her out.

Successful social media engagement requires keeping track of posts and activities that have worked for your organization; monitoring those of other organizations that have garnered positive attention; creative and fresh thinking; and a constant awareness of ever-changing and engaging tools and trends. Remember the humanizing element of social media and send out a message only if you would share it personally with your own friends.

In Focus: Social Services Organizations Meeting the Challenges of Rising Minimum Wages

Nicholas Lazzaruolo, Partner, Audit Services, Not-for-Profit and Higher Education Practices

As advocates across the nation continue to push for minimum wage increases up to $15 per hour, 22 states plus the District of Columbia will see minimum wage increases in 2017. The increases are creating serious challenges for not-for-profit organizations in those states and D.C., and serious concern in other states.

For social services and other not-for-profit organizations, the issue of an increased minimum wage is extremely sensitive. On the one hand, improving the livelihood of employees who serve the sector is certainly positive. On the other hand, without increased funding, the negative effects on social service organizations could be profound. Unlike a popular retailer or a fast-food chain that can absorb these costs by increasing prices, not-for-profits will be forced to pay their employees at least the minimum standard without the ability to pass along or otherwise recover the increased expense. This will hold especially true for social service organizations that rely heavily on government support to fund their operations.

For many social services organizations, particularly those that help individuals with developmental disabilities, more than 90% of their revenue is government funded. Of that funding, 80% goes directly to wages for direct support professionals (DSPs). Since 2008, these organizations have seen an average government support rate increase of only .05% annually. As a result, DSPs have not received significant wage adjustments over that time frame. This has caused record vacancy and turnover rates in these demanding jobs. The majority of DSPs currently earn more than the minimum wage. However, that might not be enough to keep them in their not-for-profit job with a minimum wage increase that will close the salary gap between not-for-profits and for-profits. The for-profit sector's less-demanding minimum wage jobs that require little training will likely draw many DSPs from their not-for-profit jobs. Failure to maintain a wage premium will increase the already high vacancy rates, unless the government steps up its funding.

Without some level of funding relief from the government or other private sources, the negative impacts of minimum wage increases on social service organizations could include:

- Decreased quality of care provided to individuals because of fewer DSPs and other resources
- Further loss of workers to other industries paying higher starting wages for less intensive work and training
- Growing vacancy and turnover rates within already limited staff
- Lower level of safety for both staff and those who utilize the services rendered
- Reduction in the number of people who can be served
- Fewer programs and activities offered
- Increased compliance issues
- Closure of organizations

Improving the livelihood of employees who serve the sector is certainly positive, but without increased funding, the negative effects on social service organizations could be profound.

Choose proactive responses to prepare for potential change

As your organization decides how to address the challenges brought on by an increased minimum wage, consider these actions:

- Join a coalition of similar organizations, and petition your state and local government officials to increase funding. Emphasize the skills, training and knowledge required of DSPs to provide proper care. In addition, stress the importance of your organization's mission and contribution to the community.
- Analyze both the financial and social impacts of the programs you administer. Compare the outcomes from before and after the wage increases. This will enhance the decision-making that will be needed when evaluating both the direct and indirect effects of increased wages.
- Review operations for improvement; optimal operations are not only key to long-term sustainability and mission achievement, they also prove responsible oversight to stand up under funder scrutiny.
- Ensure public awareness of the challenges you face. Utilize the power of social media. This could lead to increased private funding and support. For guidance, see within this report *Furthering Engagement Through Creative Use of Social Media.*
- Reconsider your approaches to donor development in an effort to maximize additional revenue through private giving.
- Communicate frequently with your board. Ensure their full understanding of the risks and potential consequences of these issues.

Only time will tell the full impact of the change. In preparation, it is vital to be as proactive as possible in addressing the potential challenges and anticipated effects on your organization.

Planning Ahead for Deferred Building Maintenance

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Planning for deferred maintenance is a lot like saving for retirement — we know we should put money aside from the beginning. But the time for which it will be needed seems so far off that we dedicate the funds to more immediate concerns. Financing might become more available in the future, so why worry now? But then, in an aging community center, a water pipe bursts, flooding the entire building, and options are few.

Competition for donor dollars continues to intensify, along with pressure to control operating costs, increasing salaries and benefits, debt service costs, and technology expenditures. Setting aside monies for future maintenance may not be top of mind for boards, executive directors and donors, but it must be done. The concept of saving for deferred maintenance is not new, but in recent years, attention to this matter has waned in light of more pressing issues. However, we are seeing progressively minded leadership now starting to take up this cause at not-for-profit organizations. Aging buildings, along with a focus on more energy-efficient uses, have brought this issue to the forefront.

Think long term

Bear in mind that even the newest facilities will begin almost immediately to incur costs associated with age. Like diligent recent graduates who begin saving for retirement in their very first job, establish your organization's facility maintenance plans with a long-term view — granted, the greatest of such expenses might not arise for 10, 20 or 30 years and will burden the budgets of the next generation of fiscal officers (and directors) who will have shorter-term needs to address. But responsibility for sustainability extends to buildings, as well as to program and service excellence to constituents. Be disciplined in creating a plan that will stand the test of time and the vicissitudes of priorities.

Collaborate and communicate

An organization-wide inventory of maintenance needs for all facilities is a good starting point. Work with your facilities management team to identify all capital projects that require immediate attention (e.g., leaky ceilings in a child care center). By soliciting input from across the organization and communicating how projects and their related costs fit into the organization's strategy and goals, and health and safety laws, the totality of projects and how limited resources must be allocated and projects prioritized can be fully understood.

Educate the board, potential funders and other program constituents about deferred maintenance obligations and how an organization's financial statements provide little in terms of understanding the extent and costs of anticipated future renovations. This can go far in allaying objections to reserving funds for the future when there are needs for them today. For example, explain how a building that cost $10 million to construct 10 years ago is presented in your financial statements as net of accumulated depreciation, what it costs annually to maintain the building, its insured value and the cost of replacement. Disclosing such information will provide the rationale for deferred maintenance plans and be particularly helpful to those who are not familiar with the extent of costs to both operate and maintain a building.

Consider disclosing funds held in reserve for building improvements, either parenthetically on the balance sheet or in notes to the financial statements to allow board members and ratings agencies (for organizations that have rated debt) to understand the significant cost of maintaining your facilities. Even if these unrecorded obligations are not included in your financial statement disclosures, include them in the management/board dashboard that is reviewed throughout the year.

Practice funded depreciation

A maintenance reserve should be incorporated into the budget as a nondiscretionary item. It takes commitment to set aside cash flows and make a case for holding them in reserve through changes in leadership, organizational focus, governance and unpredictable financial demands. When the need arises for a building/facility upgrade, replacement or capital project, priority judgments can then be made about how much will be covered by funded depreciation reserves. This kind of planning helps avoid burdening operating cash or lines of credit, or forcing special appropriations from quasi-endowments.

Expand resource planning

An innovative way to deal with facilities maintenance and upgrade projects is to establish an internal revolving loan fund (at a specified level, funded with operating or quasi-endowment funds) in support of energy-efficient repairs and other improvement projects. The fund can be used to pay for qualifying energy-related projects. The associated annual energy cost savings are then used to replenish the fund in support of future energy-efficiency projects and upgrades. This approach requires great discipline, and possibly a board resolution, to fend off attempts to funnel the funds in other directions. It also requires engagement and agreement with stakeholders beyond finance and facilities, including organizational leadership who might not fully understand the purpose of this funding mechanism and how the set-aside funds are intended to be used/preserved.

Work creatively with funders

From the perspective of a donor, it might be less than satisfying to gift funds for repairs or upgrades, or for a to-be-determined plant renovation project in the distant future. Consider an approach often used in debt issuance. Incorporate a maintenance reserve goal into a capital campaign — e.g., a building's construction cost is estimated at $10 million; set the fundraising goal at $10.5 million to start a maintenance fund at the outset. Invest the fund modestly to grow throughout the building's life. The goal of the fund is to provide funding to draw from when maintenance needs arise.

Sticking to a well-thought-out deferred maintenance plan requires a degree of short-term sacrifice, but it certainly pays off in the long run. Plan early, check in often, and communicate concerns and goals.

We are seeing progressively minded leadership now starting to take up this cause at not-for-profit organizations.

In Focus: Associations and Membership Organizations Turning to M&A for Sustainability and Growth

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Myriad challenges — both internal and external — are converging to not only stymie association growth, but also threaten sustainability.

According to executives surveyed by Marketing General Incorporated, the biggest challenge for association leadership is effectively communicating membership value and benefits in a way that drives retention and growth.[1] Associations also face increasing competition to their traditional business model from online and social networking communities that offer opportunities to virtually engage with others, as well as from sources offering online education or training. Finally, changing demographics are resulting in declining memberships with baby boomers retiring and a preference for online engagement by the younger membership joining association ranks.

As a direct result of these challenges, the majority of associations responding to the survey reported a decrease (26%) in renewal rates over the past year. To survive, many have felt forced to offer more member benefits and services. But this presents financial challenges that jeopardize long-term financial viability. With an uncertain return on investment for these efforts, an association could consider a new direction — mergers or acquisitions — to achieve financial stability and growth.

M&A can close gaps and open opportunities

A viable strategy to fortify your association's position, purpose and brand in the marketplace can be via a merger or acquisition. To clarify the distinction between these two approaches, a merger is where two entities combine to form a new entity, generally to decrease competition and increase operational efficiency, and an acquisition is where one entity (target company) is subsumed into another entity (acquiring company) which can provide instant growth and expansion for the acquiring organization. A merger or acquisition can be domestic or international and can be between a not-for-profit and a for-profit entity. An option for some associations is an internal M&A — a merger of chapters to consolidate duplicative administrative and programmatic functions.

M&A can expand the member group beyond the current membership, add member services, enhance technology, and deepen knowledge and experience of association staff. It can further serve to overcome competition through consolidation of similar associations within the same industry or profession, reduce costs through synergies gained, and provide additional access to new members and population. Just as importantly, your association's reputation and brand can be enhanced.

With an uncertain return on investment in efforts to offer more member benefits and services, an association could consider a new direction — mergers or acquisitions — to achieve financial stability and growth.

1 Wasserman, Adina. "2016 Membership Marketing Benchmarking Report," Marketing General Incorporated, June 22, 2016.

Exploring benefits of M&A can focus on strengthening existing revenue streams, bringing in new revenue sources, or gaining additional infrastructure for income-producing conferences and events. For organizations seeking global expansion, targeting international associations with a similar membership base is a great way to expand without incurring the expense of creating the growth organically.

Market research is essential to gauge changing member needs and preferences of current and potential members, and it is an essential prerequisite to M&A. Based on research outcomes, you will be able to determine if a new affiliation can provide the membership solutions your association doesn't have the resources to offer.

Conduct wide-ranging tax and financial due diligence

Substantial due diligence is always necessary, but it must be especially comprehensive when transactions involve private organizations for which little information is publicly available. While strategic fit, constituents, employee/management issues, major contracts, litigation, and anticipated nonroutine expenses such as IT upgrades must be included in the due diligence process, go beyond the obvious aspects to address some nuanced financial considerations. Engage outside advisers to ensure an efficient and beneficial process.

Because intangible assets — including trade name, content, member relationships, goodwill and internally developed technology — are commonly acquired, it is imperative to involve valuation specialists for realistic assessments of these assets.

Not-for-profit tax and M&A specialists can identify potential deal hazards and their effects, and assist with ideal tax structuring, the target entity's structure verification (e.g., S-corporation election), and modeling of initial estimated tax costs of the target and the target's shareholders versus the benefit to the acquiring association.

Synergies and expanded services resulting from M&A

The Institute of Electrical and Electronics Engineers Inc. (IEEE), a global nonprofit technical professional organization with 420,000 members in over 160 countries, acquired GlobalSpec, a global for-profit source of engineering and technical news, data and analytics in April 2016. This acquisition of an industry information source increased the offerings to IEEE's members and boosted the association's brand through improvement of its emerging position in research analytics. In describing the value of the acquisition, IEEE President Barry Shoop said, "We are committed to our mission of advancing technology for humanity, and we believe the synergistic benefits created through this acquisition — across content, standards, and communities — will better serve the needs of our members, professions, and customers."[1]

The merger of two nonprofit retail industry associations — the Association for Retail Environments, a North American association for retail suppliers, and Point of Purchase Advertising International, a global association with more than 1,400 member companies in 60 countries — was rebranded in June 2016 as Shop! This merger resulted in a new association that provides expanded services, including research, education and networking to over 2,000 member companies worldwide. CEO Steven Weiss described the value of the new association: "After a thorough vetting process that included numerous focus groups and input from many of our members, our Association is proud to announce this new name and immediately begin our renewed focus to advance retail environments and experiences through our programs, events and publications."[2]

1 IEEE. "IEEE Acquires GlobalSpec and the Engineering360 Platform from IHS to Create Powerful New Resource for the Global Engineering Community," April 29, 2016.

2 "Introducing 'Shop!' – new name for A.R.E. | POPAI The New Association," PR Newswire, June 29, 2016.

When M&A involves a for-profit entity and/or entities with international or multistate local jurisdictions, associations should also consider transfer pricing tax implications. For instance, if the M&A involves a for-profit entity, there are additional considerations for pricing of such items as intercompany expenses, management fees and due to/due from loans. In a scenario in which a U.S. not-for-profit organization plans to acquire a Mexican not-for-profit organization, and the U.S. acquirer expects to purchase database services from its Mexican target, the U.S. acquirer must understand the requirements of the transfer pricing rules, which cover such issues as beneficial exchange rates. Instead of pricing the services at cost, it might be necessary for the Mexican target to include a markup fee to represent an average profit margin that matches the margin it receives from other buyers of its database services. The U.S. acquirer and the Mexican subsidiary would need a management services agreement to ensure that the acquirer maintains a relationship that meets the required arm's-length standards that it has with other service providers. By confirming that the prices it is charged represent fair market value, the U.S. acquirer complies with Organisation for Economic Co-operation and Development guidelines.

As part of due diligence, transfer pricing policies should be reviewed and revised as necessary to assure that there are minimal or no gaps between stated business and tax objectives, and to minimize the burdens and risks of noncompliance. An effective review of transfer pricing includes assessment of cross charges that might result — such as sharing employees, or payment from an acquiring entity to a target for services or physical goods — and management contracts that might be needed between the acquiring entity and the target. Include SALT considerations, as well as international value-added taxes, in the upfront cost analysis, and see that there has been proper registration and filing of sales, income, property and employment taxes.

With an open mind about collaboration and well-grounded due diligence, a formalized M&A strategy can help an association sustain and grow to further its mission, expand membership, reach across jurisdictions and even continents, broaden revenue streams through added depth and breadth of offerings, generate efficiencies, and ultimately better position itself for long-term success.

Driving Mission Achievement Through Cost/Revenue Modeling

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Many not-for-profit organizations are facing budget constraints as a result of lower returns on investment funds, tightening corporate philanthropic budgets, and less funding from government, foundations, major donors and community giving. With declines in funding opportunities, competition for available funding has increased. To make up for funding shortfalls, nonprofit organizations are cutting costs, increasing efficiencies, expanding their fundraising efforts and looking for innovative ways to increase fundraising. They are also utilizing reserve funds to cover any shortfalls.

At the same time as nonprofit organizations are experiencing budgetary pressures, the demand for services has not decreased, and for many organizations, critical constituents' needs have never been higher. As a result, the organizations most likely to succeed will be ones that can effectively assess how their use of resources contributes to the financial sustainability of their mission, and right size those resources and their deployment accordingly. At issue is what providing services and running programs really costs — not just program delivery's direct costs, which often result in a positive margin, but also indirect costs — and how these total costs relate to program outcomes and organizational revenue. It is possible to gain this more informed understanding of business operations — the relationship among costs, revenues, programs, etc. — through an activity-based cost and revenue model.

Leading not-for-profit organizations are calculating the cost of running their programs (program costing) and performing analyses to determine the appropriate configuration of critical programs and resources to effectively and efficiently serve their missions. This article summarizes the modeling initiatives that first-adopter organizations have been undertaking and the best practices that they have learned and employed.

What type of costing should be used?

There are many type of costing techniques that can be used to understand program cost and revenue — these include cost accounting, cost allocation and activity-based modeling. While conventional cost accounting and cost allocation methods can yield results more quickly than activity-based modeling, they do not incorporate the same level of detail as activity-based models do, nor do they allocate overhead as accurately. Activity-based models describe how resources are applied to particular activities and programs in sufficient detail to allow in-depth understanding of what efforts are being undertaken and at what cost, making it possible to define the causal relationship between the resources used and the outcomes achieved.

Which type of costing you use will be dependent on a number of key factors, including size and scope of program(s) under consideration, time and resources available for analysis, size of organization, accuracy and level of detail required, and long-term goals of the organization (e.g., whether the analysis is one-off or enduring).

At issue is what providing services and running programs really costs — not just program delivery's direct costs, which often result in a positive margin, but also indirect costs — and how these total costs relate to program outcomes and organizational revenue.

An activity-based model facilitates realistic decision-making

To fully understand the cost-revenue relationship, it is often necessary to go beyond conventional cost accounting and allocation, and financial statements. Organizations that utilize an activity-based model gain robust analytical capabilities to assess program economics.

Building an activity-based model is a journey; it is no trivial exercise, but the efforts lead to greater understanding of organizational economics and scenarios to aid in improvements in financial and mission performance. Activity-based models provide:

- **Program and service margin analysis.** By assigning cost and revenue to organizational outputs and programs, margins can be analyzed at a granular level. The purpose is to assess whether sufficient revenue is being generated to cover fixed and variable costs, and a sufficiently robust operating margin to allow investment in new programs and markets.
- **Understanding of the impact of indirect costs.** Quantifying the drivers of overhead costs and how they are allocated to programs and outputs is key to reducing overall indirect costs and using centralized resources more efficiently.
- **Budgeting and planning support.** Linkage of resources to outputs makes it possible to analyze how resources are contributing to services and programs. The data can be used to develop scenarios and optimization models for budgeting and planning purposes.
- **Performance measurement.** A model is a powerful analytical tool that correlates cost and revenue to data from across the organization (e.g., program success measures). The metrics produced provide guidance to management, stakeholders and governing boards to make better decisions and fulfill their responsibilities more effectively.

An activity-based model supports decisions in all areas

Activity-based models can be used to support decision-making in numerous ways, providing vital information about funding, programs and services, and infrastructure investments.

As an example, when considering only direct costs, programs and services can appear to be robust and sustainable. However, sometimes when indirect and overhead costs are added, perspectives may change. Many nonprofit organizations generate revenues through sales of products/services. For these organizations, analyzing a fully loaded cost profile across the product/service portfolio will shed light on which products/services are truly generating a margin for the organization and which are operating on an "investment" basis. On a direct basis, a high-volume, low-fee program may appear to be more financially successful than a low-volume, high-fee program. However, when fully loading the programs with all back-office transaction support, a very different story may emerge.

After calculating the fully loaded margins, the real critical thinking begins. What to do with the results of such an analysis can be quite interesting. For example, should efforts be made to alter sales volumes, price points or cost structures? Or should the organization alter its "product mix" — perhaps doubling down on resources that are directed to one product, while sunsetting another? The exact solution will depend on the organization and its unique situation, but it is likely that some combination of those solutions should be employed to effectively balance financial performance and mission achievement.

While the above analysis applies to organizations that generate the bulk of their revenues through the sale of products and services, the same structured thinking is applicable to nonprofits that generate their revenues through donations. While high-volume, low-dollar donations can look very attractive on a direct basis, it may in fact be the low-volume, high-dollar donations that do the most for the bottom line. An organization can perform a similar analysis after understanding the true margin generated through various fundraising channels — online, telephone, event-driven, etc. And, again, as with sales-driven revenues, an organization may decide to alter the mix of these donation-related activities to more optimally leverage available resources.

Not every activity that generates margin on a direct basis truly adds value to the bottom line, and frankly not every activity that generates value on a fully loaded basis should be continued. When budgets are limited, organizations need to seek out and focus on the highest value efforts.

Another example of how cost and revenue modeling can be employed relates to making infrastructure investments. Donor and stakeholder pressures often encourage nonprofits to keep administrative and infrastructure costs at levels far below their for-profit peers. This leads to difficulties in justifying investments in infrastructure and administrative personnel. Cost and activity analysis on services and programs can help make the business case for additional investments. For example, a nonprofit that provides meals for the needy can use activity-based cost analysis to determine the cost per meal. If infrastructure exists that can improve meal throughput without compromising quality, comparing the current cost per meal to the improved state could prove the case that such an investment enables the organization to utilize donor dollars more effectively and better achieve mission results.

Understanding and demonstrating how donor dollars have contributed to programs and services are critically important. Tracing revenue through activities to the services provided makes it possible to authenticate and quantify how donor contributions have affected the community. This can create an extremely positive “feedback loop” to encourage further donations by demonstrating the impact of past contributions.

Significant side benefits of an activity-based model are forcing conversations about organizational data and data cleanup. Building a model requires discussion about how similar data contained in multiple systems can be normalized and then linked to provide coherent information. These conversations often remove silos as data owners realize the interrelated nature of their data. As for cleanup, making data viewable to other stakeholders is motivation to scrub it, causing data to be much more valuable.

Change management

Change management is a structured approach to managing the transition during periods of change. By managing change effectively during an activity-based model build, an institution increases engagement, minimizes resistance and increases the likelihood of successful adoption.

A cost and revenue model’s value relies on acceptance through change management

Cost/revenue modeling operates differently from conventional information gathering. Its very newness — providing relationship data not historically available in such a cohesive form — can cause results to be met with skepticism. As with any other innovation, change management is a vital component of a modeling project.

Organizations that have adopted cost/revenue modeling have identified factors for a successful implementation. Recognizing that gaining acceptance and adoption is critical, these organizations have found it is important to:

- **Communicate.** Explain in writing the objectives, desired outcomes and uses of the model, and facilitate feedback from stakeholders on their questions and desired objectives. Communicating often and transparently will avert surprises and increase the likelihood of acceptance.
- **Include stakeholders and staff in development.** Work with a variety of stakeholders to determine their needs, which will affect model design and methodology, and report development. Take advantage of institutional knowledge and experience, and incorporate the input to build a more useful model. Engagement is also critical in creating eventual acceptance and buy-in. The process that is followed will vary by organization and culture.

- **Control perceptions.** If model results are immediately used to cut budgets and radically change the way business is done, the model will be seen as a weapon for change. Instead, begin by showing how the model can be used to identify opportunities and make acceptable modifications.
- **Allow time to kick the tires.** Decision-makers and other stakeholders need to become familiar with the model before it starts to be used for decision-making in order to understand the employed methodology and trust the results and its outputs.
- **Use effective visualization tools.** Demonstration of model data through the use of business intelligence tools is vital to explaining the model and increasing the rate of adoption. These tools show model outcomes through reports and dashboards to provide meaningful information to stakeholders and leadership.
- **Make use meaningful.** Leverage the model to achieve defined financial and nonfinancial objectives, and make it clear that you are committed to doing so. Resist attempts to simply nuance or tinker around the edges (e.g., minor modifications to the operating model of a financially unsustainable program). Rather, utilize the model to its full power to achieve the desired results by transforming your organization's programs and delivery in order to drive mission results.

The value of a cost and revenue model depends on not only how it is used, but also how well the organization adapts to a new way of looking at data and making decisions, and its willingness to adopt and act on results from the model.

Understanding the economics of your organization is critical to effective management, even in the calmest of economic environments, and certainly in these changing times. A clearly defined, well-constructed, institution-wide cost and revenue model will provide information and insights not previously available to your institution.

In Focus: Religious Organizations Embracing Changes in Demographics and Expectations

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Matt Unterman, Principal, Advisory Services, Not-for-Profit and Higher Education Practices; Chair, Religious Organizations Sector

Faith-based organizations are experiencing significant changes among their followers, requiring these nonprofits to think differently about the way they foster religious engagement, solicit contributions, communicate with the flock and serve their communities.

Transformations in religious life are a reflection of a rapidly changing secular life. Consider foreign-born Catholics worshipping in the United States. In 1975, they made up only 8% of the Church; by 2015, that number had grown to 28%.[1] As a result, Catholic churches across the country are seeing the need to offer services conducted by diverse officiants in multiple languages. Beyond worship itself, individuals are turning to religious organizations for personal and professional assistance as they establish themselves in their new home.

Expectations of congregants in all faiths are changing. In communications, there is a growing expectation of increasingly electronic, pervasive and transparent engagement. Seeing a printed bulletin at worship services is no longer adequate; worshippers want to receive weekday texts and Facebook posts — even Pope Francis has a Twitter handle (@Pontifex). Congregants also want readily accessible reports on activities and expenditures; they follow the money, rather than unquestioningly dropping cash into a collection plate. Donation patterns are shifting, along with demographics. Giving habits of younger members are different from those of their parents and grandparents; tithing is becoming a thing of the past as millennials, in this aspect of life as in others, make their own plans rather than accept those long in place.

What does this mean to religious and lay leaders? It signals that it is time to develop strategies to not only embrace and address these changes, but also anticipate and prepare for future change. In order to ensure sustainability and mission achievement, consider these recommendations for more fully engaging with current and potential followers and constituents:

1. **Start with meaningful information.** Research demographic data to better understand trends. Look at data points such as births, marriages, deaths, kindergarten enrollment and high school graduation rates. Identify where populations live currently and where movement is happening. Note areas dense with houses of worship and those with few in newly popular locations. Review ethnicities and primary languages of your followers, and determine accommodations, including hiring staff and enlisting volunteers with applicable language and culture skills, and modifying or creating programs based on needs.

Faith-based organizations need to think differently about the way they foster religious engagement, solicit contributions, communicate with the flock and serve their communities.

[1] McGill, Brian. "Catholicism in the U.S.," *The Wall Street Journal*, Sept. 18, 2015.

2. **Match giving options to your followers' preferences.** Survey your congregants to learn how they prefer to contribute, e.g., cash/check collection plate, automatic checking account withdrawals or credit card charges, stocks or year-end gifts. Make options conveniently available. In your requests for funding, know and use the messaging style and channels preferred by your followers. For example, given that millennials tend to give via automatic electronic withdrawal, prompt contributions outside of regular giving by creating events for specific projects and campaigns, and promote them on Instagram and Snapchat.

3. **Be relevant in communications.** Adapt both content and delivery methods to trending styles, e.g., short, concise text in emails with snappy subject lines. In your electronic presence — website, emails, social media — be active, communicating frequently. Keep content fresh on your website, and make regular updates on Facebook, Twitter and Instagram. Watch for new channels used by your followers, paying special attention to connections with younger generations. Meet transparency expectations by making information widely available, e.g., how contributions are used for salaries, overhead, worship and programmatic purposes, as well as for community and other causes your organization supports. Report milestones and completion of projects on social media, including photos. For further insights, see within this report *Furthering Engagement Through Creative Use of Social Media*.

4. **Engage with your community as a whole.** In the past, it was more acceptable to limit interactions to those who attended services regularly. Widen your view to appeal to others, in addition to your regular attendees — those who, in today's virtual world, are more interested in connections with others and less interested in a conventional service in which a visitor might feel uncomfortable to participate. The most successful institutions and organizations are those that reach out to a broader base. Communicate and perform outreach via social media and advertising, and experiment with ideas such as offering worship services or activities in a public place or via online streaming so passersby or online browsers can casually check you out.

Find new ways to understand and engage current followers and attract new ones. Draw them further into your congregation by demonstrating that you are purposeful in serving their needs.

Preparing for Succession Planning and Leadership Challenges

Brian Page, Partner, Audit Services, Not-for-Profit and Higher Education Practices

The baby boomer generation (born between approximately 1946 and 1964) is retiring in rapidly increasing numbers. These retirements are creating dramatic gaps in leadership and instability in the executive ranks of not-for-profit organizations.

Leadership changes at not-for-profit organizations can be problematic, especially with individuals who are the public face of the organization or drivers of fundraising success. It is vital for your organization to prepare for the loss of institutional knowledge, as well as a shortage of top talent who understand the complexities of your mission and business.

Ensure that your organization has an effective succession process that includes these leading practices:

1. **Identify key positions to prioritize for succession planning.** Not every position is created equal when it comes to the long-term success of an organization. While the president or executive director may be obvious, thoroughly assess the importance of other C-suite and midlevel management positions. In addition, consider the specialization related to each job and the difficulty of filling it from the marketplace and/or internally.
2. **Assess the risk of retirement or voluntary turnover for these positions.** Asking a key executive about his or her long-term employment and retirement plan is not an easy conversation. It could be perceived as a lack of faith in the executive or may introduce doubt about job security. Have the conversation in the proper context — referring to the framework of the succession planning program — to ensure individual buy-in.
3. **Define key competencies.** Document the leadership traits and core skills necessary for success in a given position. Some will be immediately obvious — fundraising connections, leadership and management competency, strategic planning capabilities, etc. — but the analysis should include not only current, but also future needs based on strategic plans and anticipated industry changes.
4. **Identify internal talent.** Individuals who have the required skill set or potential to develop into a position may already be on your staff. Pinpoint these individuals, as well as their developmental needs and time frame for development to determine if they are viable short-term or long-term candidates. Keep an open mind; your candidate might not be the second-in-command of a department. You may find the appropriate competencies in other department members or from individuals in different areas.
5. **Cultivate connections to discover external candidates.** There might not be a qualified internal candidate, or such a candidate may have a long development horizon. As a hedge against being caught short, continuously build a pipeline for potential external candidates. Be an active networker with peer organization personnel who may have the required skill sets, and develop relationships with recruiting firms and others who can help identify candidates when the need arises. Make this part of your hiring strategy for the next generation of leaders.
6. **Implement a development program.** Create a roadmap for potential candidates to mature into their future leadership positions. A meaningful development program includes job rotation possibilities, participation in key internal committees, formal and informal mentor/coach relationships, and specialized and soft skills/ culture training. Rather than a one-size-fits-all approach, tailor the program to the candidate and position.

7. **Cross-train employees.** To mitigate the impact of transition, proactively prepare employees to take on different roles, ensuring an appropriate diversification of institutional knowledge and capability among a number of individuals. Training can be via formalized job rotation through key positions or sharing of information and procedures among key employees. An additional benefit of cross-training via job rotation is seeing employees perform in a different capacity and identifying potential internal candidates as future replacements for retirements and turnovers.
8. **Document policies and responsibilities.** Supplement cross-training with written policies, programs and job descriptions to avoid losing essential knowledge and help orient employees to their rotational assignments.

With a well-designed succession planning process, your organization can stay ahead of the curve and ensure smooth leadership transitions.

Baby boomers are retiring in rapidly increasing numbers, creating dramatic gaps in leadership and instability in the executive ranks of not-for-profit organizations.

In Focus: Foundations
Contemplating More Direct Charitable Activities

Frank Giardini, Principal, Tax Services, Not-for-Profit and Higher Education Practices
Rick Wentzel, Partner, Audit Services, Not-for-Profit and Higher Education Practices
Alycia Mecchella, Manager, Tax Services, Not-for-Profit and Higher Education Practices

Conversations about dedicating significant time and dollars to direct charitable activities have been occurring more frequently in the offices of private foundations. The principal reason is the desire to engage more fully to make a greater immediate impact on a public charity's mission, rather than continuing in a more detached grant-making fashion. No longer are some foundation managers satisfied with simply making grants to public charities to fulfill mission objectives. Rather, they are seeking hands-on involvement in management and operations, bringing together the resources, funding and direction needed to accomplish the charitable mission.

The pace of this more active involvement is picking up, so much so that as direct charitable activities reach critical mass, many managers are considering significant changes to their foundation. Some are choosing to transfer the direct charitable activity to an existing charity, while others are considering spinning off the activity into a newly formed public charity. Some are taking a more radical route — transitioning their foundation to public charity status. The fact that many foundations have established a sunset date by which the foundation will wind down its operations has served as a catalyst for considering the possibilities to continue the foundation's charitable mission beyond that date.

As you contemplate serving both the community and your foundation's mission through direct charitable activities, include in your deliberations the choice of models and important tax and legal implications.

Choose your impact delivery model

Direct impact generally is delivered via one of two models — conducting direct charitable activities similar to a public charity or program-related investments in the form of a loan. For further insights, see within this report *Discerning Choices in Program-Related and Impact Investing*.

As noted above, many foundations are finding that they can have a greater impact in the pursuit of the charitable mission by interfacing with their community directly and actually conducting the charitable activities, whether as a museum, school or clinic for underprivileged children in the area of health care. While it is permissible under existing federal tax law for foundations to conduct such direct charitable activities, it may be tax advantageous to seek an alternative tax classification — as explained in the next section — if the activities become a substantial part of the foundation's operation.

A more prevalent example of direct impact by a foundation to a charitable cause is a program-related investment loan. Generally, such a loan amount is often the equivalent of five to 10 years of annual grants. With an influx of such significant upfront capital, the charitable organization could purchase a building or equipment, start a major new program or provide considerably more assistance, etc. Loans have varying terms and conditions. Some may offer below-market interest rates, or debt forgiveness made annually or tied to the continuing provision of specific services.

Foundations desire to engage more fully to make a greater immediate impact on a public charity's mission, rather than continuing in a more detached grant-making fashion.

Be aware of legal and tax implications

Conducting direct charitable activities brings new legal and tax risks. The board and management must take the necessary fiduciary and legal steps to protect assets from outside legal risk. For example, there could be new liability and tax issues for a foundation that in the past made grants to public charities supporting special needs children but is now conducting the programs directly through its own facilities and employees. Because of the contact with children and their well-being, adequate legal liability insurance is vital, as is the proper legal structure to provide added protection to the foundation's assets, including its endowment.

As to tax issues, the fact that the nature and operations of the new activity are charitable helps define the activity as furthering the foundation's tax-exempt mission; as such, it should not adversely affect the foundation's federal tax-exempt status. However, federal tax exemption is not the only tax issue related to new direct charitable efforts. Since the definition of charitable activity is narrower at the state and local level than the federal level, it is important for the foundation to examine the activity's operations from a tax due diligence perspective and assess any local or state tax issues that may be created by the new work. For example, if the new operations will involve new real estate holdings for the foundation, eligibility for real estate tax exemption must be ascertained. Similarly, the foundation's expenditures for the activity must be assessed for qualification for state sales and use tax exemption. With an effective tax assessment of the foundation's new activities, the foundation can put in place the right tax action plan to maximize the benefits of its tax-exempt status while minimizing possible tax exposure from noncompliance with applicable tax laws.

A structure that would allow for additional legal liability insulation is a single-member limited liability corporation (LLC). For tax purposes, the single-member LLC is disregarded; accordingly, the activities of the LLC are reported on the foundation's Form 990-PF as if it were an operating component of the foundation. For legal and business purposes, the LLC is considered a separate legal entity, and as long as the activities are performed on an arm's-length basis from the foundation, there is a level of legal protection against "piercing the corporate veil" and encroaching upon the foundation's assets if the LLC becomes subject to litigation for financial damages.

Another important consideration is whether the foundation's current tax classification as a private foundation is best long term in light of possible direct charitable activities. If your foundation foresees migrating to substantially conducting these activities, it might be better classified as a public charity or a private operating foundation. Both classifications share the advantages of being excused from the mandatory 5% of net assets distribution requirements to which private foundations are subject. In addition, they are more attractive to donors, who can contribute up to 50% of their adjusted gross income, as opposed to 30% for private foundations. Classification can be conferred by the IRS when 85% or more of activities are directly charitable.

Direct participation in charitable activities can more fully support a foundation's mission or potentially begin an evolution of the foundation and its mission. The foundation will end up developing deeper understanding and expertise to evaluate charitable needs and apply the necessary resources to provide maximum benefits to the community it serves.

Engaging with Volunteers: Risks Accompany Benefits

Jennifer Hoffman, Partner, Audit Services, Not-for-Profit and Higher Education Practices
Edward Miller, Partner, Audit Services, Not-for-Profit and Higher Education Practices

The value of volunteers has long been recognized by not-for-profit organizations, and in light of recent economic difficulties and funding challenges, organizations have further built up their base of willing and committed individuals as a means of coping with limited resources. But with the benefits come certain risks that not-for-profit leaders need to inventory and address.

According to a Bureau of Labor Statistics (BLS) survey, during 2015 almost one-fifth of the American adult population had volunteered their time at an estimated value of $188 billion.[1] The survey also reports that 72% of American volunteers devote a significant amount of time to the organization they serve — an average of 52 hours per year. Volunteers benefit not-for-profit organizations in many ways, including cost reduction, enhanced constituent services, broadened community reach, and additional knowledge and perspective.

To gain these benefits, organizations must devote significant effort to attracting and retaining volunteers. However, not-for-profit management must be cognizant of the risks associated with volunteer engagement. They need to take the necessary steps to manage those risks in order to protect the reputation, resources and ongoing mission achievement of the organization.

Recruit volunteers much the same as you do employees

To find the right volunteers to fill positions, apply the same process — and standards — you use for hiring employees. Based on your organizational strategy and mission, conduct a gap analysis of services and resources needed, determine the scope of work to be performed, identify ideal characteristics and skills desired of volunteers, and perform a diligent search.

As with staff, the goal of volunteer engagement is a mutually beneficial relationship. Be clear about what you are asking and offering; describe what the role comprises, your organization's mission and culture, and the potential gains for the individual filling the position.

The three broad categories in which not-for-profit organizations place volunteers are governance, program and service delivery, and fundraising (e.g., serving on the board or a committee, helping in a soup kitchen or seeking sponsorship for a marathon). Different skill sets are required for each category, and ensuring the right fit provides the assistance your organization needs and satisfaction that is prized by volunteers in today's environment — performing interesting and meaningful work, and making a positive impact on society. For the volunteer, additional perks are enhancing or refining their personal and professional skills, and broadening their social network.

To reach potential volunteers, locate their gathering points. According to the BLS survey, approximately 39% of volunteers got involved because of a friend, relative or a personal connection within the organization. Another 42% approached the organization on their own. In addition, your employees can be some of your best volunteers — and referral sources. Get your messages out both internally and externally to solicit and educate potential future volunteers. Network and use targeted social media, e.g., Instagram for millennials and LinkedIn for baby boomers. (For insights on best approaches, see within this report *Furthering Engagement Through Creative Use of Social Media* and *Attracting, Retaining and Gaining the Most from Millennials*.)

Partner with for-profit organizations whose employees have the skills needed to further your mission. Many corporations are more actively encouraging community involvement among their employees, so you will likely find a receptive audience. Make connections with key personnel through networking or simply contact HR departments. The offer of information sessions or visits to your site could pique the interest of potential volunteers.

[1] Bureau of Labor Statistics. "Volunteering in the United States, 2015," U.S. Department of Labor, Feb. 25, 2016.

Organizations must devote significant effort to attracting and retaining volunteers, and be cognizant of the risks associated with volunteer engagement, taking steps to manage those risks in order to protect the reputation, resources and ongoing mission achievement of the organization.

Be intentional about retaining valuable volunteers

As with employees, it takes a great deal more effort to find, engage and train a new volunteer than it does to keep a current one happy. Honor their commitment by recognizing their contributions and avoiding a focus on the needs of the organization over the interests of the volunteer. Keeping in mind that according to the BLS survey there has been a slight but steady decline in volunteerism since 2011, appoint a strong volunteer management function with protocols to build long-term relationships. Instead of assigning management responsibilities to a low-ranking professional who has time available, select a staff member with management skills and authority to make decisions and changes. This manager can help foster volunteer loyalty by staying in close touch with individual volunteers to address concerns and requests, and assuring that responsibilities and tasks are clear so their time is not wasted.

Help volunteers do their work by providing appropriate tools and information. For example, in acknowledging the competitive demands for their troop leaders' time, the Girls Scouts of the USA developed a Volunteer Toolkit, an online resource that offers meeting and project plans, as well as suggestions for activities.[2]

Ensure that your not-for-profit has a culture that is welcoming and supportive of volunteers. To gain the buy-in and support of staff — particularly those who will be charged with direct oversight of and engagement with volunteers — allow them a say in the planning, goals and structure of the volunteer program. Provide both staff and volunteers with training in effective collaboration.

The quality of the volunteer experience is extremely important for volunteers' ongoing efforts and future engagement in roles that may be different from those for which they were initially recruited.

Recognize and mitigate risk factors

When organizations consider risks associated with volunteers, they usually identify negative consequences for the volunteer: What happens if he or she is injured? How can he or she respond to an unexpected request from a client? Any number of situations could have potential ramifications for the volunteer. However, they can also have consequences for the not-for-profit. An accident or an underserved client or inappropriate volunteer behavior could lead to negative media coverage and expose the organization to significant reputational and possibly financial damage.

[2] Girl Scouts of the USA. "Volunteer Resources."

It's a mistake to compromise on quality in recruitment or training because the work to be done will be free. Having the wrong person in a volunteer position can be as costly as a mistake in employee hiring. Establish standards for volunteers you seek to attract and apply those same standards to those you already have. Keeping to those standards will be much easier than dealing with the consequences of volunteers who cause you trouble.

There are a number of steps you can take to minimize your risk exposure:

- Be proactive in recruitment and retention activities. Incorporate volunteer management as a component in your enterprise risk management system.
- Identify behavioral characteristics to avoid.
- Perform background checks of potential volunteers.
- Acquire volunteer accident insurance and bolster organizational liability coverage.
- Dedicate portions of volunteer training to discussion of real-life scenarios, and identify steps to take and staff to contact.
- Establish a process to match individual volunteers to appropriate service areas.

With continued budget constraints, volunteers can be the catalyst to drive the mission while preserving organizational resources. An effective volunteer management program focusing on risk, recruitment and retention is essential in maximizing volunteer engagement, improving strategic outcomes, furthering the mission and preserving your not-for-profit's good name.

In Focus: Jewish and Israeli Organizations Operating Globally, Complying Locally

Yossi Jayinski, Partner, Audit Services, Not-for-Profit and Higher Education Practices; Leader, Jewish and Israeli Organizations Sector
Mike Monahan, Assistant Managing Principal, Human Capital Services, Not-for-Profit and Higher Education Practices

The rules for international commerce are changing. They stayed much the same for many years and were generally simple across the globe. For example, taxes were due to a foreign country for only a long-term presence, such as an employee assignment or secondment. Now, there are tax consequences for employees who travel on behalf of all organizations, including tax-exempt and mission-driven entities, and for all employees regardless of role, such as fundraisers, administrative staff and even attendees of conferences and meetings.

Compensation, too, is becoming more complex, with rules about reasonable salary levels varying, or nonexistent, within the United States, Israel and other countries.

With headquarters in one country and representation in others, Jewish and Israeli organizations — along with other globally operating entities — need to not only continue to align with local laws and customary practices, but also understand and comply with their changes, as well as the evolutions in global workforce rules.

Jewish and Israeli organizations — along with other globally operating entities — need to not only continue to align with international compensation and tax laws, and customary practices, but also comply with their changes, as well as the evolutions in global workforce rules.

Learn the local vocabulary

The definition of a "visit" is determined by the country visited. In most countries, including the United States, for income earned or payments made to an individual/employee during a visit to not be taxable, the visit must be fairly short and irregular; fundraising trips of a representative from Israel could be taxable if they are deemed overly long or overly frequent. A few days or two weeks may be allowable, but the number will be totaled for the year. And a monthly stay of any length is likely to attract the attention of the tax authorities. As a result, the host organization could be subject to payroll tax, and the individual could be subject to personal income tax. Some governments set a limit for permissible days or visits to avoid taxation in their country. For example, Canada has chosen a maximum of one day per visit. Be aware of the allowable days for each location to which your employees travel or enter on your behalf. Keep in mind that while the primary focus of travel may be between Israel and the United States, stop-offs or other visits to achieve mission are equally important to monitor.

The terms "not-for-profit" and "tax-exempt" have no meaning in some places in the world. This has implications for taxation, as well as for reporting and other activities, and there could be obligations that your organization is expected to meet regardless of your tax status in the United States.

Know how local practices affect your benefit plans

The concerns in the United States for a quality governance and decision-making process related to the reasonableness of executive compensation are not necessarily of concern in foreign jurisdictions. In fact, the data to even gauge reasonableness are not easily gathered in all countries. While websites and surveys make salary and benefit information widely available in the United States and certain other countries, there are other countries where it is necessary to diligently research the marketplace for credible data.

Though the trend is to formalize structure in benefit plans and make payrolls globally compliant, there is still wide variability among countries. A complicating factor is that in most countries, employee compensation, as well as distributions from benefit plans, must be paid — and income taxes withheld — in the currency of the country. In assessing competitiveness in the market and equity within your organization, adjustments to total rewards programs may be needed as you consider the implications for different costs of living and inflation or currency exchange rates.

Track country-specific trends in taxation and compensation

Expansion to new locations is a great way to further mission, but geographic expansion must be carefully undertaken. Before entering an untried country or even expanding existing operations to new jurisdictions within a country, find out what can trip nexus and other site-specific taxation, and learn about the going rate for skill sets. Take a systematic approach to positioning your organization for compliance and fairness, understanding taxation rules and modeling tax equalization, as well as benchmarking housing costs and other valuations for the competitive/comparable market.

Questions raised by Grant Thornton LLP clients are answered by Grant Thornton's Yossi Jayinski and Mike Monahan:

Q: Is income also taxable in Israel if U.S. federal taxes are paid? An executive of a U.S. charity that supports an Israeli cause is an Israeli citizen and a U.S. resident; is he required to report on his tax return in Israel his U.S. compensation, which is taxed in the United States?

A: The answer depends on whether the individual is a *tax resident* of Israel and/or the United States and on the determinations of local Israeli law and double tax treaty (DTT) "tie-breaker" rules, which help identify the country(ies) that will levy taxation.

1. An Israeli *resident* is subject to tax on a worldwide basis. If an Israeli *citizen* is also an Israeli *resident* who works and earns income in the United States, he or she is subject to tax in Israel. Tax paid in the United States according to the IRS and tax treaty is allowed in Israel as a tax credit. Note that because there is no Social Security treaty between United States and Israel, Social Security payments must be made in both countries.

2. Israeli residence for taxation is determined by local Israeli law or the DTT. If according to one of these determinants an Israeli is not regarded as an Israeli *resident* because he or she moved to the United States permanently, he or she is subject to income tax only in the United States for salary earned in the United States. Note that the DTT is the determinant when the individual is regarded as a resident of both countries according to each country's local law.

   During the first year of relocation, it is likely that scenario No. 1 will apply — a citizen will be regarded as a resident and must make tax payments in Israel, less tax credit for tax paid in the United States. Each case will be examined by tax authorities each year.

Q: Is an organization required to contribute to a government-administered benefit plan in addition to any contributions it might make to the employer-sponsored benefit plan for an individual employee who works in the United States and Israel?

A: Yes, depending on the provisions of the benefit plan, your organization might have to contribute to the socialized retirement plans, plus the pension plans, in both countries.

Taking Steps Toward an ERP System Change

Natesh Ganesan, Manager, Advisory Services, Not-for-Profit and Higher Education Practices

In their efforts to deliver on their mission, not-for-profit organizations struggle to gain meaningful insights from enterprise and donor data. This is a necessity for interpreting trends, exploiting opportunities and responding to challenges — including changing donor demographics; an evolution in fundraising models (e.g., peer-to-peer, crowdfunding, microdonating); the increasing influence of social media and mobile computing; advancements in cloud computing and other technology; shrinking budgets; the need to achieve operational efficiency; and greater demands for transparency in reporting to constituents, donors and the board. Technology enablement in not-for-profit organizations is imperative to stay competitive and thrive.

The overarching imperative to technology improvement is to cut through informational silos, connect information sources and systems, and utilize appropriate data to gain meaningful insights that will guide reporting, measure progress, manage day-to-day operations and make evidence-based strategic decisions. Solving these challenges requires the collaboration of management and the IT department in deploying an enterprise resource planning (ERP) system. Not-for-profits need to move more rapidly to leverage the benefits of a well-connected ERP system.

However, with maintenance of existing disparate legacy systems, security concerns, and financial and regulatory reporting always on the front burner, IT can find itself low on capacity and skill to take on ERP. In addition, these competing priorities can leave little room in the budget for an ERP initiative. Enhanced capabilities are particularly vital now to improve constituent outcomes through delivery of more complete information that can drive better-informed decision-making and reporting, and to identify, target, communicate and engage with the right donor population.

With increasing numbers of uses and users, there is a need to move to a more datacentric, user-focused, social, collaborative and mobile-friendly processing environment. Organizational leaders are both challenged by and inspired to leverage the technology at their disposal to meet expectations to measure — and, as necessary, improve — program/service delivery; fundraising effectiveness; budgeting and forecasting cash flow; financial, constituent and board-level reporting; and operational efficiency. Fortunately, ERP's emerging functionality can help meet such expectations.

Leaders are taking advantage of the benefits of agile software development methodologies; advances in data integration, analysis and reporting techniques — and cloud computing.

Take these steps in considering an ERP investment or reinvestment:

1. **Align your technology trajectory with organizational strategic goals and objectives.** Work with your IT organization to review your current technology, and confirm that the IT strategic plan is aligned to the organization's mission, strategy and priorities. The plan should provide an overall vision and consistent direction for future technology initiatives, including ERP implementations and mapping of IT goals to organizational goals. Utilize technology to enable strategy, and align technology investment accordingly. For a greater focus on using technology to serve the organization's mission, convene a technology leadership committee that includes functional leaders, as a governance structure to ensure consensus and support of investments and change.

2. **Collaborate with your IT organization on assessment and research.** According to recent studies, IT organizations are shifting from managing infrastructure and technical resources to managing vendors, services and outside contracts. Begin now to prepare your IT organization for this shift to a focus on marketplace resources, and how that will affect existing and future ERP system development and maintenance. Management, including the CFO and technology leadership, must work together closely to choose between upgrading and replacement, insourcing and outsourcing, and use of cloud platforms versus organizational resources.

   Include in the assessment and research:

- Current ERP system utilization versus future-state needs to identify potential gaps and opportunities for generating additional value
- Suitable ERP solutions in the market and how those solutions can help realize the results outlined in the IT strategic plan
- Cost of maintaining legacy ERP systems and disparate systems compared to the cost of upgrading to a fully integrated environment

   Analyze this from a total cost of ownership perspective.

- A wave of best-of-breed ERP solutions — and the rise of the cloud

   As opposed to the historically limited flexibility and significant implementation cost and complexity of ERP systems, the emergence of middleware (software that connects enterprise applications) and enhanced integration methods, techniques and tool sets have led to modular solutions. Cloud computing options now include either moving entirely to a native ERP solution or integrating existing on-premises/hosted ERP systems (i.e., hybrid cloud architecture). This solution combines modern cloud-based SaaS solutions with on-premises core ERP systems or applications for a flexible, mobile and user-friendly solution. Hybrid ERP is a natural solution for organizations; legacy ERP and other systems can be combined with cloud-based solutions to minimize cost and accelerate implementation.

3. **Develop an ERP strategy and an implementation roadmap.** Build consensus within your organization by engaging and inspiring the staff, senior leadership and the board in this organization-wide initiative. Based on factors such as future trends, in-house competencies and skills, business process maturity level (i.e., how defined your business processes are), IT support model, security considerations, and tolerance for risk and change, choose your path forward in collaboration with IT.

   In accordance with the IT strategic plan and assessment and research results, develop an appropriate strategy and implementation roadmap. A collaborative approach will help to ensure that your ERP system is embraced organization-wide as valuable in making improvements and delivering on mission.

Enhanced ERP capabilities are particularly vital now to improve constituent outcomes through delivery of more complete information that can drive better-informed decision-making and reporting, and to identify, target, communicate and engage with the right donor population.

About Grant Thornton's Services to Not-for-Profit Organizations

Grant Thornton LLP has a well-earned reputation for understanding the needs of not-for-profit organizations, providing them with in-depth knowledge to improve their operations, seize opportunities, address challenges and mitigate risks. In so doing, we help these organizations fulfill the promise of their missions, and when we assist them to become more effective at what they do, the benefits cascade through all the communities they serve.

More than 400 dedicated industry professionals serve the audit, tax and advisory needs of approximately 900 not-for-profit organizations. While this statistic is notable, what is more important is the prestige of our nonprofit clientele — we serve a notable 32% of the *Forbes* 100 largest U.S. charities for 2016,[1] 30% of *The NonProfitTimes* 2016 NPT top 100[2] and 25% of the top 100 of *The Chronicle of Philanthropy* 400 largest charities.[3]

The not-for-profit sector is a strategic industry segment for our firm. Our commitment to this sector is reflected not only in the number of clients we serve, but also in our active support of and leadership in key industry associations and conferences aimed at strengthening not-for-profit organizational effectiveness and execution. We also demonstrate our industry leadership through our dedication to giving back to this community by sharing our best-practice experience via forward-looking thought leadership, including publications, articles, presentations, webcasts and training.

Our clients rely on us, and we respond to that trust by making continuous investments in our people so that we can provide our not-for-profit clients with the highest level of service. We are the only leading accounting firm to have fully dedicated professionals from staff to partner who work exclusively with not-for-profit and higher education clients. Our not-for-profit professionals provide our clients with information about relevant industry trends; accounting and regulatory pronouncements; practical insights and value-added recommendations; personal attention with timely, authoritative feedback and quick responses; and high-quality service with measurable results. When we support our clients to deliver on their missions, we deliver on ours.

Keeping you informed about industry trends

We are committed to helping you stay up-to-date on industry developments. Visit grantthornton.com/bei to join our Board and Executive Institute so you can regularly receive invitations to our latest educational forums and speaking engagements, and access articles and webcasts on current and emerging issues of interest to not-for-profit leaders. Explore grantthornton.com/nfp to access our industry resources and thought leadership.

1 "The 100 Largest U.S. Charities," *Forbes*.
2 "THE 2016 NPT TOP 100," *The NonProfit Times.*
3 "How Much America's Biggest Charities Raise: 26 Years of Data," *The Chronicle of Philanthropy*, Oct. 7, 2016.

Here are some of the ways we serve the not-for-profit sector:

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- Private foundation services
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- Strategic planning and governance
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Find and share the report online
The State of the Not-for-Profit Sector in 2017 at grantthornton.com/nfp2017.

Grant Thornton's Not-for-Profit and Higher Education 2017 Webcast Series

Each year, leaders from Grant Thornton's Not-for-Profit and Higher Education practices provide learning opportunities through our webcast series. These sessions cover a wide variety of trending topics and regulatory updates affecting your institution.

Five webcasts in the 2017 series are reserved exclusively as a benefit for our clients, in appreciation to those institutions that have chosen Grant Thornton to help meet their audit, tax and advisory needs. Client-only webcasts are password-protected; contact a member of your Grant Thornton engagement team if you have registration questions. The remaining five webcasts are open to anyone associated with the not-for-profit and higher education sectors who may be interested in learning more about these important industry topics. Find information about all webcasts at grantthornton.com/nfp "2017 webcast series"; past webcasts, which are archived, are also available for access.

Client-only webcasts

- FEB 16 — Exploring the thoughts of nonprofit CFOs and board leaders
- APR 19 — Strengthening your not-for-profit organization's brand
- JUNE 28 — Creative ways of using social media to further engagement
- AUG 23 — Moving beyond ERM theory to real-world implementation
- OCT 25 — Engaging with volunteers: Risks accompanying benefits

Open webcasts

- JAN 25 — Avoiding culture failure, reaping the benefits of a positive environment
- MAR 22 — State of the not-for-profit and higher education sectors
- MAY 24 — Not-for-profit accounting, regulatory and uniform guidance update
- JULY 19 — Nonqualified deferred compensation plans: Applying rules to real-world scenarios
- SEP 20 — Proactively monitoring your image in a world of watchdogs

"The Salvation Army Central Territory has been exceptionally served by Grant Thornton for over 10 years – and they continue to develop a deep understanding of our unique operations, organizational structure and service needs.

The partners and staff are easy to work with, knowledgeable and responsive. They actively keep us up-to-date on the latest accounting and tax changes, as well as best practices in the not-for-profit industry. With their dedicated local and national not-for-profit professionals, we feel that we always have the highest level of expertise, resources, training and thought leadership. They deliver seamless services wherever needed at our locations in 10 divisional cities covering 11 states, and on the timetable we require.

The Grant Thornton team has built a strong relationship with The Salvation Army, including participation in and support of our events and fundraising efforts. Grant Thornton continues to be uniquely qualified to serve our organization, and we are pleased to work with team members who take such a personal interest in our mission and success."

Shelagh M. Stuart-Andrews, Director of Investor Relations and Business Compliance,
The Salvation Army Central Territory

About Grant Thornton LLP

Founded in Chicago in 1924, Grant Thornton LLP (Grant Thornton) is the U.S. member firm of Grant Thornton International Ltd, one of the world's leading organizations of independent audit, tax and advisory firms. Grant Thornton has revenue in excess of $1.6 billion and operates 60 offices with more than 570 partners and more than 8,500 personnel in the United States and at our Shared Services Center in Bangalore, India. Grant Thornton works with a broad range of dynamic publicly and privately held companies, government agencies, financial institutions, and civic and religious organizations.

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