

INFP

**Assessing Risks to
Your Organization**

**Foundations Brace
for Challenges Ahead**

Is It Time to Merge?

The competition for funding dollars is becoming increasingly intense among not-for-profit organizations, yet the demand for charitable services is growing. Even nonprofits that are not struggling financially may be finding it difficult to expand the scope of their programs and services in the current environment. A solution to these challenges may lie in merging with an organization that is similar or complementary to your own.

Weigh the Benefits

As in the for-profit world, there are potential benefits—but also potential pitfalls—associated with mergers. For the management and staff of your organization, the prospect of merging with another group, especially if it is larger than your own, may be intimidating, and it could trigger fears of job cuts, new layers of impersonal bureaucracy, and a loss of focus on the group's core mission.

continued on page three



tonneson+co
Certified Public Accountants & Consultants

Assessing Risks to Your Organization

Managers of not-for-profit groups know that taking risks is necessary when reaching out to and serving client populations. But by planning ahead, you can protect your organization against more preventable threats, while taking steps to minimize the potential impact of others. Regular risk assessments can help to ensure that your organization is aware of potential risks and has strategies in place for dealing with them.

Depending on the size of your organization, consider assigning an individual staff member or team of employees to keep track of risks. At least twice a year, this individual or committee should meet with management to present its risk assessment and discuss how each of these potential threats is being addressed. Information about and advice on risk management for nonprofits is easily accessible online, as are checklists and self-assessment tools that groups can use to help get started.

These are a few of the broad categories to consider when assessing potential risks to your organization:

Insurance

The types and levels of insurance coverage needed varies greatly between organizations, but even the smallest charities need some basic forms of coverage. In addition to discussing insurance with your professional advisors, you may wish to conduct your own research into the appropriate forms and levels of coverage. Never allow your key insurance policies to lapse, and check that up-to-date copies of policies are stored in a secure location.

Personnel

Failure to comply with labor laws and health and safety regulations can result in expensive lawsuits. In addition to having appropriate liability insurance, your organization should carefully review all policies regarding the hiring and treatment of employees, as well as ensure that all managers understand the importance of adhering to these guidelines. Both staff members and volunteers will require proper training in any relevant safety or legal issues before starting work, especially if dealing directly with clients.

The possible departure or retirement of skilled and knowledgeable employees who are vital to the success of your organization also represents a risk. While there is no way to guarantee that valued employees will stay forever, your organization can implement knowledge management and mentorship programs that may create an easier transition for other staff members to continue the work when a key employee leaves.

Facilities

This may seem obvious, but too many organizations fail to check that their buildings and offices meet basic health and safety requirements, and that their facilities are adequately protected against break-ins, fires, and natural disasters.

Computer security

Even if unintentional, the leaking of sensitive information stored electronically can have serious consequences. All computers used for professional purposes by staff members should be password- and firewall-protected. Employees should also be reminded of the importance of using the Internet responsibly, especially when posting information or opinions relevant to the organization on blogs or social networking sites. Another potential threat lies in the accidental loss of essential data. All important files should be backed up daily and stored at a remote location.

Financial risk

Adequate long-term financing and day-to-day cash flow are essential to the survival of all organizations. While these issues may not seem relevant to risk assessment, they are actually among the most important. Some of the financial questions to address in a risk management assessment involve technical matters, such as details of accounting processes and supplier contracts. But other questions will be broad: Does your organization know where its funding is coming from one month from now, and in two years' time? Do you have in place a business plan that outlines your funding strategy? Do you have a broad range of reliable funding sources, or is your group dependent on a relatively small number of donors whose withdrawal of support could seriously jeopardize the future of your organization?

continued on page three

IS IT TIME TO MERGE?

■■■ *continued from page one*

However, small is not always better in the non-profit world. Over time, the proliferation of charities in a community offering the same or similar services can actually make it more difficult for all of them to achieve their goals, as the scramble to attract donors and volunteers occupies increasing amounts of attention from boards and management.

As in the for-profit world, there is often much to be gained when two organizations with complementary missions join forces. Combining all the functions needed to operate an organization—including accounting, IT, marketing, human resources, donor management systems, and professional and legal advice—can produce considerable cost savings. Consolidating office space and equipment can, by itself, noticeably reduce overhead expenses.

When the partner is well-chosen, the rewards of a merger may exceed efficiency and economics. An increase in size for both groups may make it easier to attract the attention of the press and larger donors, as well as to expand services and programs. For example, a group with a strong track record of success in implementing certain programs, but which has had difficulties in the past with fundraising, may seek a partner with more secure funding sources, but less expertise in those program areas. In another case, two charities with similar missions and overlapping client bases, but different programming strengths, may wish to join together so that they can offer a wider range of services to the communities they both serve.

Consider the Details

Despite the ultimate benefits of a merger, the process of melding two independent organizations is seldom an easy one. If your group is considering seeking a merger partner, first conduct a detailed inventory of your organization's strengths

and weaknesses, acknowledging any deficits that could make the organization an unattractive candidate for a union. Equally, the strengths and weaknesses of your potential partner must also be assessed, as well as the issue of whether the mission and culture of the group is a good match for your own.

Before approaching another organization to discuss a merger, consider the following: Since there is usually only one chief executive, how will that position be filled? Will layoffs be necessary, and how will these be managed? Where will headquarters of the merged organization be located? What will be the name of the organization? How can operational and administrative processes be integrated with minimal disruption? Keep in mind, however, that the other organization may have different views on each of these issues, and that compromises may be necessary.

It is also essential to discuss the prospect of a merger with all important stakeholders in your organization, including donors, staff, and volunteers. Donors may express concerns that their contributions will no longer be spent in the same way, or that the impact of their gifts will be diluted in a larger organization. Staff and volunteers may worry that the culture of the organization will change, and that they will no longer feel “at home” in the new structure. Yet, when the benefits of a merger are presented, they may come to support the changes.

Initially, melding two independent groups can be an arduous, time-consuming, and even costly process. While it is impossible to anticipate all the challenges involved, organizations that are considering a merger may want to begin by partnering with each other on smaller projects, thus increasing the level of cooperation over time before taking the more drastic step of combining their resources to form a single entity. ♦

ASSESSING RISKS TO YOUR ORGANIZATION

■■■ *continued from page two*

To help focus your efforts, consider hiring a third-party consultant to conduct a risk management assessment of your organization. An expert with an objective perspective can often catch potential dangers that those closer to the organi-

zation are likely to miss. Keep in mind, however, that it is the responsibility of management to use the consultant's recommendations to craft practical strategies for protecting your organization against the identified risks. ♦

Foundations Brace for Challenges Ahead

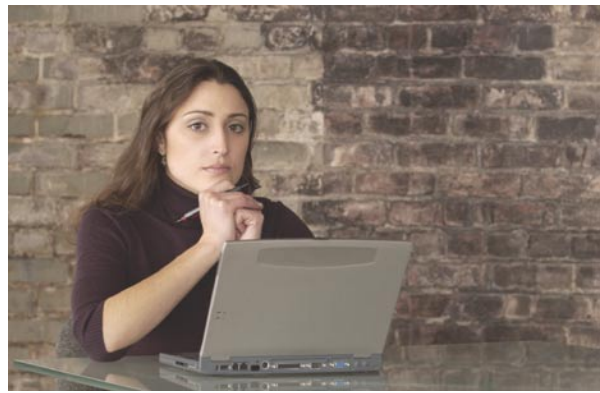
In reaction to tougher market conditions and declining donations, many philanthropic foundations are targeting their contributions to the most needy and are taking steps to help the charities they support operate more efficiently, according to a recent study conducted by the *Chronicle of Philanthropy*.

Results of the study were based on financial data for 2007 and 2008 provided by 57 grant makers, as well as data for 2009 provided by 73 foundations. An analysis of the data showed that endowments declined a median of 29% between 2007 and 2008. Researchers noted, however, that while losses were severe, they were less than the equivalent drop in the Standard & Poor's 500 of 38.5%. Due to their relative financial health, few of the foundations surveyed intend to make major changes to their investment strategies moving forward.

Of the foundations that supplied projections for 2009, 39% said they expect to decrease grant making to charities, 22% said their contributions will likely remain the same, and 12% reported plans to increase grant making. But

interviews with respondents revealed that some of the foundations that expect to reduce their contributions are also making additional efforts to help the organizations they support to manage their resources as efficiently as possible.

Researchers also cited a recent study showing that almost 50 foundations and corporate donors have pledged additional or renewed funding to help soften the immediate impact of the downturn on the poorest families, as well as to study longer-term policy and regulatory solutions to economic problems. ♦



Be advised that this information was not intended or written to be used, and cannot be used, for the purpose of avoiding tax-related penalties; or for promoting, marketing, or recommending to another party any tax-related matters addressed herein. This publication is intended to provide accurate and authoritative information on the subject matter covered. It is distributed with the understanding that the publisher and distributor are not rendering legal, accounting, or other professional advice and assume no liability whatsoever in connection with its use. © 2009