



# NONPROFIT NAVIGATOR

Fall 2012

## ABOUT US

*Our not-for-profit niche at Henry & Horne, LLP was officially formed 28 years ago, but we have been serving the not-for-profit community since we opened our doors in 1957.*

*We are dedicated to Arizona's nonprofit community, and as a local firm with such a long history, we truly understand what is important to our nonprofit clients. Our team members receive quality continuing education specifically in nonprofit topics and are continually researching various nonprofit issues, which results in a very broad level of nonprofit expertise.*



## Encounters with Endowments

By Colette Kamps, CPA

The determination of whether a donation is *truly* a permanently restricted endowment is not always a black and white issue. The donor may use the term “endowment” when making a donation, but actually have the intention for the donation to be used for a specific purpose. Or, a named fund may be set up by the Organization for a large donation received and then be recorded as an endowment simply because a *named* fund was set up.

There are really two key points that it comes down to when determining if a donation is an endowment: (1) Did the *donor* have the *intention* for their original donation to be held permanently? (2) Did the *donor* specify that only the *earnings* on that original donation can be spent by the Organization? (The donor may also specify that the earnings are to be used for a specific purpose).

Obviously, it's important to have clear documentation from the donor at the time the original donation is received. If the points mentioned above aren't clear in that documentation, it's also important to communicate with the donors on their intentions, rather than try to determine that on your own. Effective communication between the development department and the accounting department can go a long way with this. But what if you are trying to go back in time to verify that the endowment funds that have been on the books for years were originally recorded correctly? When reviewing documentation or letters from donations received in past years, it's essential to stay focused on the two questions above. Grant-making foundations with a high number of funds, including permanent endowments, may consider going through the practice of reviewing past documentation to ensure that endowments were originally recorded correctly and to ensure that any restrictions on earnings were complied with.

When an Organization does hold endowment funds, it is their responsibility to have a consistently followed spending policy and an investment strategy with the goal of maintaining the perpetuity of those funds. In other words, what is a prudent percentage amount of the funds to spend annually, given the expected investment return over the long term? The spending and investment policy should be in writing so that board members (and future board members) of the Organization have a clear understanding of their fiduciary responsibilities when it comes to endowments. It's also a good idea for the board, investment committee, or finance committee to periodically review that policy to decide if it should be updated.

**If you have any questions Colette can be reached at (480) 839-4900 or [ColetteK@hncpa.com](mailto:ColetteK@hncpa.com).**



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# COORDINATES

*The Chronicle of Philanthropy has designed "How America Gives," which is an interactive tool that lets you explore charitable giving by area. Arizona ranked 20th out of 51 states (including the District of Columbia).*

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*The 2012 Nonprofit Fundraising Survey, a joint project between The National Center for Charitable Statistics, The Association of Fundraising Professionals, Blackbaud, Campbell Rinker, and Giving USA Foundation is currently requesting responses from not-for-profit organizations to measure the impact of economic conditions within the community on fundraising efforts. Participation is open through January 2013.*

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*According to the New York Times, many baby-boomer retirees are volunteering their time to not-for-profit organizations. Fortune 500 companies like IBM, Intel and General Electric have organized volunteer groups to respond to this growing trend.*



## Understanding and Avoiding Mission Drift

By Jessica Puckett, CPA, CFE

A not-for-profit's mission is a statement that defines an organization's purpose and the population it serves. It is typically found on the organization's website, within their bylaws and articles of incorporation, and reported in their Form 990. It's the basis for which an organization is granted their tax-exempt status from the IRS. Because of this, it's essential that a not-for-profit follow their mission and avoid activities that are outside of it.

However, that can be a challenge. Like any type of business, not-for-profit organizations have to change and evolve in order to stay afloat. This might involve altering the types of services provided or seeking out new sources of funding when existing sources start to dry up. When this happens, oftentimes an organization experiences what is known as "mission drift."

Here is a classic example of mission drift: A well-established organization has a defined mission to provide specific services to underprivileged children. As they begin to experience significant decreases in their funding over the past couple of years, they start looking for new funding sources. They apply for a very large grant that requires them to provide services to a population outside of underprivileged children. It may be animals or adults – it could be anything outside of their stated purpose. While it might be for a cause that is certainly worthy and good, it's just not anchored to their particular mission. In the act of "chasing dollars," this organization has potentially drifted from their mission and their tax-exempt purpose.

Mission drift can be confusing for management, employees, board of directors, volunteers and donors. In the Summer 2012 issue of the Nonprofit Navigator, we explored how important a strategic plan is to an organization. When you consider that mission drift takes an organization away from its core purpose, it's clear that strategic planning is ineffective under those circumstances. How can you plan for the future when you aren't even clear in what you're trying to accomplish? It's difficult to determine how resources – both time and money – should be directed when your ultimate goal becomes clouded.

In order to stay on course, not-for-profit organizations should evaluate all major activities in light of how those things relate to their mission. They should be in direct connection with the types of clients served and the types of services provided. Turning focus away from those things and their impact on the community to instead respond to internal issues or trying to "fit into" available grants that are outside of normal activities are strong indicators that a not-for-profit might be drifting away from its mission.

Sometimes mission drift is an intentional decision by an organization. If you identify the need to change or update your mission (assuming the change remains in line with a tax exempt purpose, of course), you'll need to consider making amendments to your articles and bylaws. The change needs to also be disclosed to the IRS on the Form 990.

**If you have any questions Jessica can be reached at (480) 839-4900 or [JessicaP@hhcpa.com](mailto:JessicaP@hhcpa.com).**

