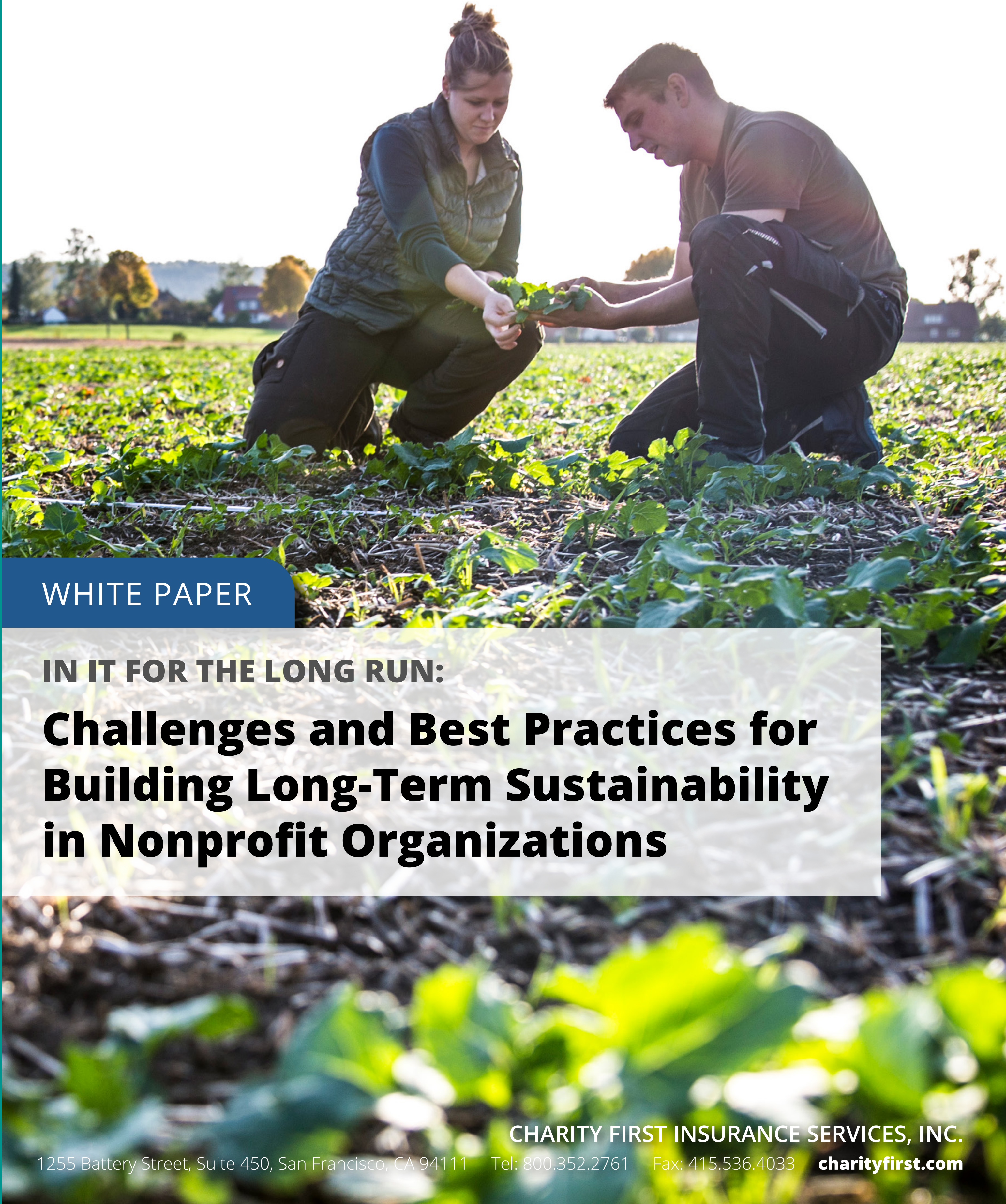

WHITE PAPER

IN IT FOR THE LONG RUN:

Challenges and Best Practices for Building Long-Term Sustainability in Nonprofit Organizations

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Introduction

According to the National Council of Nonprofits, the word "sustainability" is used to describe a nonprofit that is able to support and maintain itself over the long term, perpetuating its ability to fulfill its mission. Yet, as important as sustainability planning is, it's not always a part of a nonprofit organization's business plan.

This white paper will examine the financial issues, leadership challenges and risk exposures facing nonprofits in building and maintaining long-lasting sustainability. It will also address best practices to help organizations better ensure viability for today and into the future.

One-third of nonprofit organizations surveyed had three years of negative income margins, with expenses exceeding their income.

*Source: The Financial Health of the United States Nonprofit Sector: Facts and Observations.**

SUSTAINABILITY PLANNING FOR NONPROFIT ORGANIZATIONS

WHAT IS SUSTAINABILITY PLANNING AND WHY IS IT IMPORTANT?

Nonprofit organizations help fill a lack or need within a community, generate funds for research, and assist individuals and groups with educational, financial, medical and social services. Not having a plan that addresses how programs will continue to operate in the event of financial challenges, leadership changes and other external risks not only creates stress and chaos, but makes it difficult for an organization to effectively continue its mission.

Sustainability planning plays a big role in the existence of a nonprofit because it describes how an organization plans to operate over the long term. And while these plans typically address economic viability (e.g., what to do when funding runs out), they can also include how to handle other issues such as a shift in key leadership positions that can stall vital programs, and liability exposures that can financially cripple an organization.

ADDRESSING KEY SUSTAINABILITY ISSUES

Failing to properly plan and account for both short- and long-term sustainability can significantly affect the impact a nonprofit has within the community and on individuals who depend on the resources, services and programs offered by the organization. Key issues that must be addressed to better ensure sustainability include financial viability, leadership transitions and risk exposures.

MAINTAINING FINANCIAL VIABILITY

Many nonprofits are primarily dependent on highly restricted grant support that doesn't always cover costs associated with day-to-day operations and unexpected expenses. Unfortunately, financial struggles are often a reality for many organizations, making it difficult to manage finances and maintain sustainability. Which is why, when an unexpected financial shortfall occurs, having adequate cash reserves plays such a vital role in allowing an organization to sustain itself.

Unfortunately, according to the Nonprofit Finance Fund's State of the Sector report,[1] less than 25% percent of nonprofits surveyed said they had more than six months of cash in reserve. In fact, most responding nonprofits reported having less than three months of operating reserves on hand, with nearly 10% having less than 30 days of readily available cash.

When developing a cash reserves policy as part of a sustainability plan, the National Council of Nonprofits[2] suggests:

- Deciding just how much money the organization should have set aside at all times.
- Developing a process for how the organization will determine whether or not to access reserves.
- Establishing a clear definition of the types of circumstances for which assets in reserve can be used, including any restrictions or limitations.
- Creating a process and time frame for replenishing the reserve account.

BEST PRACTICES FOR MAINTAINING FINANCIAL VIABILITY

- Identifying what matters most for long-term sustainability as it relates to revenue reliability, surpluses, liquidity and debts.
- Having the commitment of the board and staff to adhere to financial management best practices that include a timely review of financial reports.
- Establishing the amount of operating reserves that should be maintained at all times.
- Developing a process for managing and monitoring the organization's daily cash flow.
- Creating a plan for how to best diversify funding sources.
- Identifying the costs associated with establishing and running programs.
- Establishing operational rules to ensure that transparency, accountability and financial integrity are maintained when receiving and using funds and resources.
- Instituting a plan for how to respond to critical financial issues and steps for taking proactive and decisive action.

TRANSITIONS IN LEADERSHIP POSITIONS

Nonprofit organizations that aren't prepared for changes in key leadership positions will experience difficulty in maintaining long-term sustainability. Yet, despite the importance of planning, only 27% of nonprofits surveyed said they had a written succession plan.[3]

A sudden vacancy on a board or the expected transition of a long-tenured leader is more than an inconvenience. Poorly managed transitions can reduce organizational sustainability by negatively impacting the effectiveness of programs, and can even cause a potential loss of external funding as long-time donors take a wait-and-see approach when it comes to evaluating new leadership capabilities, institutional knowledge or expertise.

Common barriers to succession planning and plan implementation

Planning:

• Lack of time.

• Little or no support from board members and staff.

• Apprehension from current leaders who may feel they are easily replaceable.

• Concern that identifying internal successors may alienate staff who are not selected.

Implementation:

• No plan follow-through or accountability.

• An inflexible plan or one that isn't customized for the organization.

• Too much focus on short-term needs versus long-term transitions.

Today, most donors prefer to support sustainable nonprofit operations that they feel can manage the inevitable challenges of a leadership transition, with grant makers especially watchful of how nonprofits handle succession and transition processes. Organizations with a solid succession plan will be appreciated and supported by their donors and stakeholders for the long term.

Succession planning is good risk management and a key component for ensuring the viability of an organization. It's about advanced planning for contingencies that aren't always expected and provides clear direction should an individual serving in a key leadership position suddenly depart or is forced to take an unscheduled short- or long-term leave.

BEST PRACTICES FOR SMOOTHER LEADERSHIP TRANSITION

- Identify current and potential challenges the organization may face when there is a change in leadership.
- Consider whether placing an interim leader would be beneficial for the organization.
- Establish a timeline for planned leadership successions.
- Cross-train current staff to minimize the disruption from unexpected staffing changes.
- Identify leadership development opportunities for staff and board members that will allow individuals to expand their leadership skills, helping to create a pipeline of potential future leaders within the organization.
- Provide support when onboarding newly placed leaders, offering proper training and mentoring.
- Communicate what the organization will say to stakeholders before, during and after a transition of leadership.
- Develop an emergency leadership succession plan to address the timely delegation of duties and authority whenever there is an unexpected transition or interruption in key leadership. An emergency plan should include:
  - » The prioritization of all leadership functions.
  - » A list of successors who are ready to step in and assume leadership positions.
  - » The immediate steps to ensure that current donors don't get nervous about the executive's departure.
  - » An outline of essential leadership responsibilities for an interim leader.
  - » A plan that addresses all succession situations: short-term, long-term and permanent absences.

MANAGING RISK EXPOSURES

There are a number of risks that can threaten the sustainability of a nonprofit organization. From liability exposures faced by the board of directors, employees and volunteers to cyberattacks and property damage, insurance plays a critical role in the risk management process.

The following insurance coverages should be considered when building an effective sustainability plan.

> *"A well-designed risk management program is vital in preventing and reducing loss expenses, it ensures that the organization will have the necessary assets to carry out its mission, while fulfilling its responsibility to protect the safety and well-being of its employees, volunteers and patrons."*
>
> ***Maureen Dyson***
> *Area Executive Vice President, Charity First*

DIRECTORS AND OFFICERS (D&O) INSURANCE

An organization's board of directors and officers are responsible for maintaining a nonprofit's vision and strategies for continued long-term sustainability. But exposures ranging from fiduciary wrongdoings to wrongful termination claims can cause considerable financial damage to a nonprofit in defense costs and settlements and judgments arising from allegations brought against the organization. Make no mistake — damages, settlements and legal fees can be sizable. In fact, the average claim against nonprofit directors and officers costs around $35,000 to settle, with one in 10 claims reaching the $100,000 mark before parties agree on a settlement.[4]

D&O insurance covers the organization and its directors, officers and trustees against actual or alleged wrongful acts in three major areas:

- **Governance liability.** Claims resulting from general governance decisions.
- **Fiduciary liability.** Claims resulting from alleged fraud and improper financial oversight, including oversight of employee benefit plans (Employment Retirement Income Security Act) and use of grant funds and donor contributions.
- **Employment practices liability.** Claims resulting from employment-related activities.

CYBERSECURITY INSURANCE

A NetDiligence Cyber Claims Study[5] ranked nonprofit organizations as one of the top five industries affected by cyberattacks. If an organization has a website, a shared network or data stored in the cloud, it is at risk. Today, a cyberattack can have a serious financial impact on a nonprofit organization and can mean the difference between being able to continue to offer valuable programs and services and closing the doors for good.

A cyber insurance policy should include:

- Privacy liability (including employee privacy).
- Security breach response coverage.
- Business Income and Digital Asset Restoration.
- The Payment Card Industry Data Security Standard.
- Multimedia liability.

EMPLOYMENT PRACTICES LIABILITY INSURANCE

In 2017, over 80,000 employment discrimination charges were filed with the EEOC. The fact is, nonprofits are subject to the same types of employment-related claims that for-profit businesses face. Even if the organization isn't found guilty, defense costs can be costly. Employment practices liability insurance covers costs associated with an organization's defense, as well as any settlement to the plaintiff.

If your nonprofit organization has volunteers and employees or works with a third party, employment practices liability will protect the organization from allegations arising from:

- Sexual harassment.
- Wrongful termination of a board member, employee or volunteer.
- Discrimination.
- Unfair hiring (volunteering) practices.
- A hostile work or volunteer environment.

GENERAL LIABILITY INSURANCE

General liability is typically required coverage for organizations that rent office space, host special events, work in partnership with another organization or are looking to obtain funding. Without proof of coverage, certain services and opportunities won't be possible.

Nonprofits typically purchase $1 million in general liability coverage. However, organizations with significant assets should consider higher limits. And while policies will differ, general liability coverage typically addresses specific key issues that can have a negative financial impact on an organization relating to:

- **Legal liability.** Costs resulting from injuries to people or damage to the property of others arising out of the actions of employees, volunteers or members.
- **Damages.** Lawsuits brought against the organization resulting from libel, slander and defamation of character.
- **Medical expense.** Provides medical payments to the organization's employees, volunteers, members and guests for injuries that occurred on the premises due to an accident — regardless of who is at fault.

PROPERTY INSURANCE

Coverage for property is critical in providing the funds needed to help a nonprofit rebuild and get back to serving others in the event of a loss. Property insurance covers damage to property (including computer and other records) owned or leased by the organization. Large property losses can include damages due to bursting pipes, a windstorm, fire, hail damage, theft and vandalism. Not only are these types of losses costly, but they can also prevent an organization from keeping its doors open for weeks, months or even longer.

AUTO INSURANCE

Even if an organization doesn't own a vehicle, a commercial hired/nonowned auto policy should be considered, providing a level of liability protection in the event someone from the organization uses his or her vehicle for activities related to the nonprofit such as transporting volunteers and running errands.

BEST PRACTICES FOR MANAGING RISK EXPOSURES

- Work with an insurance broker who understands how nonprofit organizations operate and can provide the most appropriate insurance recommendations.
- Schedule and perform regular risk assessments.
- Evaluate the causes of prior losses.
- Establish a safety program for employees and volunteers.
- Review current insurance policies for potential gaps in coverage and to ensure that limits are sufficient in the event of a loss.

CREATING A BASIC SUSTAINABILITY PLAN

When creating a sustainability business plan, a good place for an organization to start is by addressing how it plans to:

- Take the first initial steps in developing a comprehensive sustainability plan.
- Cover leadership succession issues — for both planned and unexpected departures.
- Build an operating reserve that totals at least six months of operating costs.
- Expand its individual donor base to increase donations.
- Create and execute an annual giving membership program.
- Seek multiple grants simultaneously.
- Partner with local corporations for greater reach.
- Establish a secure online giving portal that makes it easier for supporters to give.

CONCLUSION

Nonprofit organizations already have a lot on their plates. In addition to the day-to-day managing of programs, community services, employees and volunteers, there are liability, financial and leadership issues that can have a significant impact on maintaining operational sustainability.

The ability to achieve sustainability in no way speaks to the quality of the level at which a nonprofit organization is maintained, but that the level is maintained on a consistent basis — month after month, year after year. A comprehensive sustainability plan allows organizations to focus on more important issues by adopting a big-picture, long-term mindset to better guarantee organizational longevity.

ABOUT CHARITY FIRST

At Charity First, our core focus is on serving the risk management needs of nonprofit organizations. We offer comprehensive insurance products and services that are designed around what matters most to nonprofits, playing an integral role as part of a long-term sustainability plan. To learn more about Charity First, contact us at 800-352-2761 or email marketing@charityfirst.com.

NOTES:

[1] Nonprofit Finance Fund's State of the Sector report.

[2] National Council of Nonprofits.

[3] BoardSource.

[4] Board Effect Blog, May 2018.

[5] NetDiligence Cyber Claims Study. Department of Homeland Security, Cyber Infrastructure, Potential Hurricane Harvey Phishing Scams, August 2017.

* The Financial Health of the United States Nonprofit Sector: Facts and Observations.

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