nonprofit agendas

AUGUST/SEPTEMBER 2011

Back to the future
Rely on financial statements to make decisions for the future

Avoiding donor fatigue

Lease negotiations
Is it time for a new home base?

News for Nonprofits

Alexander Aronson Finning

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Where Every Client is a Valued Client

IAPA INTERNATIONAL Global Support Local Knowledge

CPA The CPA. Never Underestimate The Value.®

UK200Group independent quality assured professionals

TANGO

Phone: (508) 366-9100 Fax: (508) 366-9789 Website: www.aafcpa.com Email: info@aafcpa.com

Back to the future

Rely on financial statements to make decisions for the future

Financial statements regularly slide over your desk and pass through board members' hands, providing a wealth of financial data on your nonprofit's most recent month, quarter or year. But do you and the board rely on this valuable information to make business decisions and plan for the organization's future?

LOOKING FOR INSIGHTS

Think of the audited financial statements as a family album, providing a history of your nonprofit's financial past. Examining that past can help you better manage your organization now and in the months and years ahead.

To glean meaningful insights from these documents, you need to understand what each statement represents. Take it a step further, and you (or the board members) can use the data to create a trend analysis, an industry comparison or a projection of upcoming challenges. Such tools can springboard your organization to making better-informed decisions.

UNDERSTANDING BASIC FINANCIALS

Being able to use the information in basic financial statements to strategize for your organization starts with understanding the statements' purpose and components:

Statement of financial position. This report lists your nonprofit's assets (what you own), liabilities (what you owe) and net assets (assets the organization has after all liabilities are paid). It's a snapshot of your nonprofit's financial health on a given date — usually the end of a month, quarter or year.

Statement of activities. This statement provides details about the revenue and support your organization is bringing in and the expenses it's incurring for a time period ending on a specific date: for example, "the year ending Dec. 31, 2011." This is also the date of the statement of financial position. The statement of activities typically summarizes funds coming in by type of revenue and support, such as fees and service contracts, grants and contributions, and investment income. The statement also summarizes expenses — typically under the categories of programs, management and general, and fundraising.

Statement of functional expenses. This statement displays a chart of expenses for the same period as the statement of activities, listing expenses in classifications down the page, such as salaries, rent and professional fees. Columns across the page — typically program, management and general, fundraising, and total — group each expense into the function that received the benefit of the expense.

Statement of cash flows. This report presents the impact of the nonprofit's activities on cash

for the same period as the statements of activities and functional expenses. It segments cash coming in and going out into operating, investing and financing categories.

Notes to the financial statements. These remarks explain the nonprofit's accounting policies and information about certain entries presented in the statements. Details on the activity in endowment funds and information on temporarily restricted net assets are, for example, given in the footnotes. They also include details about line items, such as the allowance or discount included in long-term pledges receivable.

USING FINANCIALS TO INVESTIGATE

It's critical that your nonprofit perform monthly comparisons of the organization's financial results to its corresponding budget. Most financial software programs allow the budget to be entered per month and produce statements that compare *actual* results to what was budgeted.

Financial information should be used to evaluate the organization's effectiveness in meeting its mission.

Make it a policy to investigate any variances greater than a certain dollar amount or percentage. A smaller organization might, for instance, base the dollar amount on the amount used in its check-signing policy. A percentage of 5% to 10% variance is often used as the rule of thumb. This allows you to properly oversee and assess operations in a timely way, and evaluate the performance of individual programs and departments.

USING FIGURES TO FORECAST

Planning for the near future is critical in today's lean economy. You can compare *actual monthly results* through the most recent month, and add *future budgeted* monthly amounts to prepare a forecast of the full-year results. This "best guess" of what will happen to the organization in financial terms over a given period of time may indicate the need to find more revenue and support and cut back spending. Or you may find just enough resources to buy those new computers. Basically, the comparison will indicate whether you're on track with your original budget or if it should be revised.

A similar model can be used to prepare a cash-flow projection. This is useful for nonprofits with cyclical cash needs during the year. The projection can help you plan properly and make good investment decisions. If it shows you have excess cash in September, for example, but will need to use the cash in February, invest the cash in such a way that it can be available at the later time.

FINDING OTHER USES

Financial information should be used to evaluate the organization's effectiveness in meeting its mission. Monitoring program information from detailed financial records can help determine whether you're accomplishing specific goals.

Use stats to improve

Comparing your annual results with other nonprofits in your industry — or benchmarking against industry statistics — can help identify your organization's strengths or weaknesses. And this can lead to spotting growth opportunities or reallocating resources. Apply these same ratios over several years and you'll have the basis for long-range strategic planning and better use of money and resources.

For example, you might notice that another nonprofit in the same industry spends significantly less on its facilities than you do while providing comparable services. Or perhaps it raises twice the dollars that your organization does each year. Use these revelations to target areas for improvement.

If your current year's objective is to increase membership from 1,500 to 1,800, for example, examine the total membership fees collected and monitor the progress toward your goal. If you need $2 million to build your new facility, use the monthly statement of activities to monitor pledges and develop a detailed listing of pledges receivable to monitor donor payments.

YOUR FINANCIALS COUNT

As management and the board evaluate risk and make strategic decisions, your nonprofit's financial information will serve as a critical tool. Have the statements available to the decision makers in a timely fashion and present them in a format that's easy to understand.

If your organization has an annual financial statement audit, the accounting firm conducting the audit should make a presentation of this information to the board. Also have the financial statements available to donors, potential donors and grantors so they can see how their support is being used. Financial facts affect most decisions, so take advantage of this important resource. ❋

Avoiding donor fatigue

Year after year, your development department or board members contact the same people to solicit donations or sponsorships for a special event. But at some point, even the most benevolent souls experience donor fatigue and don't want to be asked again.

Here are some tips on how to stay engaged with your donor base while not having your fundraising efforts erode the relationships you've worked so hard to build.

"FRIEND-RAISE," NOT FUNDRAISE

Whether you're a relatively new nonprofit or a well-established organization, consider the concept of "friend-raising." Ask your board members, employees, volunteers and others connected with your not-for-profit to provide names and contact information of people in their own networks. This is a great way to involve your tried-and-true supporters in the fundraising process, and will quickly help you to:

- Raise awareness of your organization,
- Grow your database of potential donors, sponsors and volunteers, and

- Simply spread your fundraising message to a larger audience.

Presumably, the board members, employees and volunteers won't blindly give out contact information on their business associates, friends and family members. Instead, they should first talk to their contacts about your organization, explain your goals and get them excited about your mission. With this approach, your strongest donors provide a personal introduction to your nonprofit and may be more likely to generate a donation.

STAGGER YOUR ATTENTION

When you do a mass mailing for donations, do you blanket your entire donor base each time? Doing so can, indeed, lead to donor fatigue. To avoid this, stagger your solicitations. Solicit your most significant donors in person, for example, but contact the next tier of donors with a personal letter. Follow up both communications with a phone call. Solicit all other donors by mass mailing.

THINK OF ALTERNATIVES

Also consider forgoing soliciting your major donors for monetary donations every year. Their *nonmonetary* donation may be just as valuable, if not more so. If your organization holds a special event at the same venue year after year, for example, explore other venues for the next few years.

Then, ask the established sponsor to provide support in another way, such as by donating a gift card or gift basket for a raffle. This way the donor might readily commit to holding your event every other year or every third year.

The same holds true for individual donors. While you'd hate to miss out on a donation by simply not asking, consider asking significant donors to contribute in ways besides writing a check.

If they're consistently making large donations, chances are the donor is well established in the community. So it may be beneficial to ask them to donate their time by chairing a committee, emceeing an event or hosting a fundraising function on your nonprofit's behalf. This strategy ties into the friend-raising concept — involving your major donors in other ways may result in their introducing your organization to others.

MIX IT UP

Just as you may dislike it when the same organizations constantly ask for monetary donations year after year — or even several times a year — so may your current donor base. By making a few small changes, you can avoid donor fatigue without sacrificing any contributions. ❋

Lease negotiations

Is it time for a new home base?

With the economy still on the mend — and the commercial real estate market far from being in top form — it might be a good time for your organization to look for a new building space to lease. Or you might want to renegotiate your current lease with a landlord who doesn't want to risk the financial impact of a vacant space.

A MOVE FOR THE BETTER?

If your nonprofit has good credit, there's a real chance you can find a more suitable — perhaps even larger — space with attractive lease terms. Leasing companies and landlords these days, though, want to firm up arrangements fast. So poise yourself to act quickly once you find the deal that's best for your organization.

Conversely, if your nonprofit is currently in a space it loves, you can use some of the same strategies you would use negotiating a new lease to arrive at better lease terms.

Make sure your nonprofit has the financial capacity to incur the new leasing expenses and is comfortable with the long-term projections.

CALCULABLE AND HIDDEN COSTS

Before starting, make sure your nonprofit has the financial capacity to incur the new leasing expenses and is comfortable with the long-term projections. You'll also want to calculate what a move will cost your organization.

Moving expenses and construction costs for building out your new space are among the costs that typically accompany the signing of a new lease (or sublease). Legal fees for a review of the lease, paying the first month's rent and a security deposit are other immediate expenses.

A less calculable cost is the hours it takes to find a new place, conduct lease negotiations, and make the actual move. On the plus side, in a tenant-friendly market a landlord may be willing to pay for some of your upfront construction and moving expenses, or negotiate these costs into the monthly lease payment to be paid over the term of the lease.

SOME DETAILS TO CONSIDER

Many considerations go into negotiating a lease agreement. Here are six important points to weigh before signing a lease:

1. The agreement should allow your organization to sublet the space.
2. The lease payment should be calculated on usable square footage instead of rentable footage.
3. Some landlords will give the tenant a month's free rent (or more) at the start of a lease.
4. The agreement should include an option for an extension and at a stated price.
5. The first year of occupancy should be used as the base year for calculating common area maintenance charges.
6. It's desirable for the lease renewal option to have a fixed rate.

These are only some of the cost-related matters you'll want to address during lease negotiations. Your CPA can help you pinpoint other areas that might affect your nonprofit financially and make projections.

WHATEVER YOU DECIDE

Let's say that you rule out moving from your current space, but still want to lower your organization's fixed expenses. Can your lease be refinanced to lower your monthly payment? Or perhaps you can get the roomier space in your building that your organization needs and secure it through an extended lease for another three to five years.

But whether you negotiate a new lease — or extend your current one — think through the financial repercussions. And have an attorney review any lease agreement before you sign it. ❋

NEWS FOR NONPROFITS

HAVE YOU "TWEETED" LATELY?

While social networks — notably Facebook, LinkedIn and Twitter — are continuing to grow and become one of the top mediums of the day, many nonprofits have yet to join in. You're ahead of the game if you've already tapped into social networking and your organization's name is front and center with interested audiences.

If you've been slow to participate, keep in mind that social networking offers many advantages, such as free advertising and public exposure. You can easily provide a description of your nonprofit and its mission, for example, through your Facebook account. You can promote upcoming events, add photos of past events, purchase ads for a small fee, link to your organization's website — and even collect donations. A billboard would struggle to compete with Facebook, which has more than 500 million users.

Let's say you think creating an account with one of the networks is a great idea. But you worry that you and your staff won't have time to learn how to use it, let alone maintain your account.

The solution? Ask a younger volunteer, intern or a recent grad (who likely already uses one or all of the sites) to take on the task. These young minds can get creative with ways to tap into the target audience. But, no matter whom you choose to help you with social networking, make sure your nonprofit isn't left behind. So, identify your goals before splashing onto the scene. And keep in mind that it may not be to your benefit to use *all* of the popular sites. ❋

REPORTING DEFERRED COMPENSATION PAYMENTS

Nonprofits often reward key employees through a nonqualified deferred compensation plan. The plan provides additional compensation that's deferred during employment and then paid out at a later designated date — typically at retirement.

However, payroll reporting for these payouts can be tricky. Once the plan payout is vested and no longer subject to risk of forfeiture, the plan balance is subject to FICA and Medicare.

The challenge with this arrangement is that the recipients are responsible for paying their portion of the FICA and Medicare when vested, even if they haven't yet received a payment. This could mean they must reimburse the organization for the required tax.

Payment of income tax on the balance due isn't as complicated. The recipient must pay the tax when the payout is received. If you provide deferred compensation benefits, check with your CPA on proper reporting. ❋

This publication is distributed with the understanding that the author, publisher and distributor are not rendering legal, accounting or other professional advice or opinions on specific facts or matters, and, accordingly, assume no liability whatsoever in connection with its use. ©2011 NPAas11

Alexander Aronson Finning
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Professional Services We Provide:

- Accounting & Auditing
- Tax Planning & Compliance
- Business Consulting Services
- Litigation Support
- Business Valuation Services
- Nonprofit Attest Services
- Estate & Gift Planning
- Succession Planning
- Employee Benefit Services
- Performance Enhancement Services
- Financial Planning & Wealth Management
- Forensic Accounting

AAF Partners:

Visit our website at **www.aafcpa.com** to learn more about AAF's executives.

Carla M. McCall
CPA, Co-Managing Partner

David P. McManus
CPA, Co-Managing Partner

Herbert S. Alexander
CPA, Board Chairman

Joel Aronson
CPA, Vice President

John T. Finning
CPA, Vice President

John R. Buckley
CPA, Vice President

Jeffrey V. Cicolini
CPA, Vice President

Joy C. Child
CPA, Vice President

Matthew R. Hutt
CPA, Vice President

David J. Kelleher
CPA, Vice President

Robin D. Kelley
CPA, Vice President

Dana J. Marks
CPA, Vice President

Thomas A. Washburn
CPA, Vice President

Call any of our partners at **508-366-9100** for answers to any of your questions.
Please contact Angela Balter at abalter@aafcpa.com if you would prefer not to receive this publication.

Alexander Aronson Finning
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS
21 East Main Street
Westborough, MA 01581-1461

ADDRESS SERVICE REQUESTED