

nonprofit agendas

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5 tips for dynamic strategic planning

Impressing your "suitors" with financial information

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News for Nonprofits

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5 tips for dynamic strategic planning

Is your nonprofit the same organization it was three years ago? Are your stakeholders the same now as then? Is your community and its support of your nonprofit the same?

It's been said that the only thing certain in life is change, so you likely answered "no" to each of these questions. Change is a key reason why your not-for-profit needs to revisit and revise its strategic plan regularly. And you can make your strategic planning process as dynamic as change itself. But it takes focus and commitment.

IGNITE THE PROCESS

Here are five tips to help you ignite the strategic planning process:

1. Don't wait too long. Three years is about the right length of time between strategic plans for most organizations. The goals and objectives you developed three years ago may still be on target, but it's more likely they aren't.

Almost all nonprofits have struggled over the last few years: Generally, funding and individual donations are down, staffs are smaller, and leadership changes have been common. Now may be the perfect time to resize your organization's future and plot the route to get there. Strategic planning might be just the spark your nonprofit needs to revitalize.

2. Leave the routine behind. Because strategic planning is about a mission, a vision, and big-picture goals and objectives, the process works best when people brainstorm in a fresh setting. This requires the strategic planning team to get out of the office and temporarily put aside daily operations.

The core of most strategic plans can be formed over two or three days. So have



designated staff members take care of what can't wait — the rest of the work can sit until the employees on the strategic planning team return to the office. Better yet, hold your retreat over the weekend.

3. Hire an outside facilitator. Your nonprofit's executive director will take a lead role during the strategic planning sessions. But the objectivity of an outsider is valuable when working with a planning team of board members, clients, staff and management. A facilitator can create the sense that all ideas are good ideas and keep the group on track. Team members may be more willing to speak candidly and throw away "the way we've always done things" at the urging of an outside professional with no vested interest in the organization.

Also, an experienced facilitator will be at ease using methods that stimulate thinking, such as the "scenario approach," in which strategies are tested against possible external and internal

events. (Your No. 1 funding source dries up, your executive director retires early, and so on.)

4. Do the prep work. You and your staff should put together a collection of documents that tell the story of your nonprofit, its current situation, and anything strongly related to its purpose — for example, demographic trend information and the results of a membership-needs survey (if applicable). You also should have a narrative description of your organization, including its history, values, mission, programs, leadership, staff and financial status.

PEST analysis looks at the political, environmental, social and technical factors affecting the organization.

Many organizations also include a SWOT analysis — a detailed description of the nonprofit's strengths, weaknesses, opportunities and threats. Some nonprofits take the process a step further with a PEST analysis, which looks

at the political, environmental, social and technical factors affecting the organization.

5. Make the big decisions. The strategic planning sessions should focus on the big picture as you review your nonprofit's mission statement and create a clear and concise vision statement of what your organization will look like at a specific point in the future. Then you'll want to discuss and draft your nonprofit's goals (not more than two or three), objectives that need to be met to achieve each goal, and strategies for reaching the objectives.

As a follow-up to the sessions, the strategic planning team should form an action plan with a timeline and assigned responsibilities. The action plan will be the implementation boilerplate after the strategic plan is approved by the board of directors.

KEEP IT VITAL

The uniqueness of your organization will dictate the shape, complexity and, of course, the content of your strategic plan. The challenge after strategic planning is to implement the plan in a timely manner and to review it along the way for major changes that must be taken into account. *

Impressing your “suitors” with financial information

Attracting funding organizations and large individual contributors to donate money to your nonprofit is a little like finding a spouse — you want to create the best impression during the courtship in the hope that the other person will find you to be a “good catch” and make a commitment.

The financial information on your nonprofit has the potential to create a great first impression. Here are some things to keep in mind.

SIZING YOU UP

Before deciding where to put its dollars, a major funder likely will request two pieces of

information to make its assessment of your organization. One is a copy of your most recent audit or financial statements prepared by your accountant, and the other is a copy of your most recently filed Form 990.

Your challenge is to make sure that information in these documents presents your organization accurately and in the most favorable light. Armed with this information, your potential funder will be able to see how your nonprofit stacks up against similar organizations.

Funders often take information from a nonprofit's financial statement and Form 990 and plug it into three ratios: a program spending ratio, a fundraising efficiency ratio and a management expense ratio.

HOW YOU SPEND MONEY

Your *program spending ratio* is one of the most common benchmarking measurements that will interest possible funders. The ratio is calculated as follows:

$$\frac{\text{Program expenses}}{\text{Total expenses}}$$



The resulting percentage is the portion of your not-for-profit's expenditures spent on program services. The higher the percentage, the more efficient your organization is with funder dollars.

In its *BBB Wise Giving Alliance Standards for Charity Accountability*, the Better Business Bureau (BBB) holds that a nonprofit should have a program spending ratio of 65% or higher. Several nonprofit watchdog organizations, including Charity Navigator and the American Institute of Philanthropy, routinely rate and publish this percentage for some of the larger and more prominent nonprofits.

A funder will benchmark your nonprofit against these percentages to determine if your organization — or someone else's — will likely spend its dollars most efficiently. Because of this, it's important to accurately categorize your expenses by *function*. This maximizes the amount allocated to program costs as opposed to management and general or fundraising expenses.

HOW YOU "BRING HOME THE BACON"

Your nonprofit's *fundraising efficiency ratio* is another metric that frequently interests potential funders. It's calculated as follows:

$$\frac{\text{Total fundraising expense}}{\text{Contribution and grant revenue}}$$

"Contribution and grant revenue" refers to those revenues received as a direct result of your nonprofit's fundraising activities. This resulting percentage is a signpost of how much it costs to raise each contribution dollar. Generally, the lower this percentage, the more dollars available to support program services. The BBB states that this percentage should be no more than 35%, which would mean it costs no more than 35 cents to raise each contribution or grant dollar.

HOW YOU MANAGE THE "HOUSEHOLD"

Another good measure of a nonprofit's efficiency is the portion of expenditures spent to support

Show them the outcome

Funders have long valued expense ratios and other metrics that quantify your financial health. But potential funders are often just as interested in the impact your nonprofit makes in the community. Be sure you reliably measure the *outcomes* of your program dollars and report the results to the funder.

Let's say that the Westport Doodads Company awarded the Westport Job Retraining Center (WJRC) \$100,000 to fund job retraining programs. If WJRC wants to receive funding for a second year, it likely will need to report to Westport Doodads how that money was used — and, importantly, what results were achieved.



Westport Doodads, for example, would be most interested in knowing that 76 people upgraded their computer skills through a six-week training course (funded with dollars from the company) at the center. Of those 76, 57 were called in for interviews by employers seeking people for positions requiring computer skills. Of those 57, 28 people were called back for second interviews and 16 were offered a position.

Consider including outcomes information on Form 990, which has a lot of room for narrative. That way, readers of the form will have more information about you than simply numbers.

administrative functions, or the *management expense ratio*. It's calculated as follows:

$$\frac{\text{Total management and general expenses}}{\text{Total expenses}}$$

Most funders want to see their donations support program services and thus will look for organizations with a low percentage of management and general to total expenses, usually in the range of 25% or less. A nonprofit with a high percentage will generally be deemed inefficient in running its organization, unless it's able to communicate the reasons for the unusually high percentage.

OTHER YARDSTICKS

Most funders will consider other financial factors, as well. Some may perform a trend analysis, placing the three most recent years of financial information side by side to see the increasing or decreasing trends in revenue and expenses.

A decreasing trend in financial support could indicate that the nonprofit will be unable to sustain itself in the future. Or, if program expenses are growing at a faster rate than fundraising expense, the nonprofit could be experiencing some inefficiencies or mismanagement.

Many funders also will examine your accumulation of unrestricted net assets. A successful not-for-profit avoids accumulating an excess of unrestricted funds that otherwise could be directed toward program services. According to BBB guidelines, a nonprofit's unrestricted net assets available for use should be no more than three times the size of its past year's expenses or three times the size of its current year's budget, whichever is more.

If unrestricted net assets appear excessive, a funder may decide the nonprofit doesn't need the contribution. To avoid the appearance of accumulating excess funds, an organization may choose to designate, either on the face of the Statement of Financial Position or in a descriptive

footnote, certain amounts for specific purposes such as debt service or building repairs.

THE IMAGE YOU PRESENT

In short, it's in the best interest of your organization to understand what the numerical

information on financial statements and Form 990 can represent to funding organizations, individual contributors and others in the public domain.

The image you're presenting to possible "suitors" can draw them in or send them running. *

Will your executive director score with the community?

If your nonprofit is looking for a new executive director (ED), you probably have a checklist of qualifications a mile long. Many organizations want their ED to be a jack- or jill-of-all-trades, including management genius and financial wizard.

But you'll also want your next ED to be able to deliver your organization's message to the community, because this will affect your ability to raise funds, form alliances with other nonprofits if needed, attract quality staff and volunteers, and earn the confidence of those your organization serves.

To find the right person with this potential, look for:

Public speaking ability. The examples your candidate provides should give you an idea of how often this person speaks to groups outside of the office, and of the types of groups he or she has reached out to. Can you visualize this person behind the mike at your annual event or addressing strangers at a Lions Club dinner?

Experience developing relationships with businesses and community organizations. Does the candidate demonstrate success in getting the community to rally behind his or her current organization by forming alliances, securing individual contributions and landing funding?



Charismatic personality traits. Determine by observation and by conversations with people who know the candidate if he or she is:

- * "People-friendly" — extroverted, sociable and likable,
- * Magnetic — projecting confidence and integrity, likely able to attract others to fall behind him or her to support your nonprofit, and
- * Persuasive — able to change one's way of thinking through reason and argument, likely able to build a solid case for funders and others.

Identifying these qualities in a new ED during your external search — or during your search to find someone within your organization — can help ensure your next ED will be an effective leader of your nonprofit.

NEWS FOR NONPROFITS

ENCOURAGING UNCONVENTIONAL GIFTS

“Unconventional” appeals to a segment of the general population and may be more attractive to certain donors. Here are some unusual ideas for giving that people can incorporate into their everyday lives and that may not cost a lot of money:

- * Throw a children’s party for a cause — for example, the birthday girl or boy can ask guests to bring pet food and kitty litter to donate to an animal shelter, canned food for a food bank, or school supplies for a community organization.



- * Put charity on the wedding registry, figuratively — a marrying couple can ask for charitable donations and forgo getting another coffeemaker.
- * Give to charities through eBay — whether buying or selling, donors can set up a donation to their favorite charities through “eBay Giving Works.”

You can find these and other ideas on about.com. Search for “ideas for everyday giving.” Consider putting together your own list of offbeat ideas and circulate it to your constituents. *

IRS IMPLEMENTS FORM 990 CHANGES

The IRS has issued a set of final rules that largely reflect changes already made on the revised Form 990, “Return of Organization Exempt From Income Tax.” Published in the Sept. 8 *Federal Register*, the rules are effective immediately and replace the agency’s temporary regulations issued Sept. 9, 2008.

The final rules, as outlined in the instructions to Form 990, define new threshold amounts for reporting compensation and require that compensation be reported on a calendar-year basis. Among other things, they also eliminate the

advance ruling process for new organizations, change the public support computation period for publicly supported organizations to five years (as already listed on the form), and clarify that nonprofits must use their overall method of accounting to report the public support. *

MILD IMPROVEMENT IN GIVING TRENDS

While the economy continues its slow mend, *Giving USA 2011: The Annual Report on Philanthropy* shows some improvement in donor support of nonprofits for 2010 over 2009. Among its findings:

- * Total estimated U.S. charitable giving rose 3.8%.
- * Giving by individuals climbed an estimated 2.7%, and charitable bequests jumped an estimated 18.8%.
- * Corporate giving rose an estimated 10.6%.
- * Giving by foundations fell a marginal 0.2%.

You might want to keep these trends in mind as you plan your nonprofit’s 2012 fundraising efforts and make budget adjustments. *

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