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Nonprofit Observer

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Not The Same Old Bottom Line

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How your nonprofit can survive the current economic crisis

Every day seems to bring more bad news, and it's not just for-profit companies that are feeling the effects of the global financial crisis. In many cases, nonprofits are hit even harder than other sectors when the economy sours.

Depending on the strength of your leadership, cash position, long-term financial resources and support base, you may merely need to watch expenses more carefully. On the other hand, your organization may run out of funds and be forced to cease operations altogether. Most nonprofits, of course, fall somewhere between these two extremes, but the reality is that almost all will feel some pain. Help your organization weather the storm by taking immediate action.

A COMPLEX CRISIS

You may have experienced a decrease in both small donations and major gifts from individuals and corporations and suffered significant investment losses. If you rely on government support, you may be receiving less help now as government entities struggle to meet their many obligations. And more charities are competing for grants from foundations whose endowments have gone the way of declining financial markets. At the same time, you may be experiencing increased demand for your services as members of your community lose jobs, homes and support from other charities and government agencies.

If this sounds like an impossible situation, it isn't. According to the Association of Fundraising Professionals, charitable giving in the United States has decreased only once in the past 40 years. And despite 2008's record stock market losses, America's wealthiest donors promised much more to charity last year than they did the year before — $15.5 billion, compared to 2007's $7.3 billion.

Even in tough economic times many donors are committed to making charitable gifts, and, when apprised of their favorite charity's increased needs, may actually be willing to step up their support. And, even if you already run a lean operation, there likely are costs you can cut and measures you can take to stretch what funding you do have.

FIRST THINGS FIRST

Before you start making drastic cuts or desperate appeals for donations, take a good, hard look at the state of your nonprofit. Are you still focused on your original mission and long-term strategies? If not, why not? A financial crisis can be an opportunity to recommit to your original goals or, if warranted, adjust them to changing needs.

Next, evaluate your staff and determine whether you have the right people in place to meet the challenges ahead. If not, nonprofit downsizing means there are many excellent candidates on the job market who may have the experience and skills you require. Also, be sure you have strong internal controls and a well thought out, documented investment policy to guide you through turbulent financial markets. (See "Creating a solid investment policy" on page 6.)

ASK FOR HELP

This isn't the time to hole up in your office with a few key staffers. Take your nonprofit's financial challenges directly to your board of directors — your organization's fiduciary trustees and, in many cases, largest donors. These directors may be able to suggest solutions, based on their own professional experience and expertise, you hadn't considered.

Don't neglect your staff, either. Solicit everyone in your organization for new fundraising and expense-reduction ideas, and be sure to keep employees abreast of important developments. If you fail to openly communicate with staffers about potential program cuts or layoffs, you only fuel the gossip mill, which can lead to organizational instability.

Also enlist the help of financial and legal professionals. Your financial advisor, in particular, can review your current budget, assets and expenses to ensure your operation is efficient and to help you set priorities. For example, your advisor is likely to ask you to identify those programs that have the greatest impact on those you serve and those that, while nice to have, are less effective.

RAMP UP DONOR CONTACT

Before you cut your marketing and donor outreach budgets, weigh the potential costs and benefits. *Now* is actually the time to increase donor contact. In particular, make personal appeals to your organization's biggest supporters, candidly discussing with them:

- The nonprofit's financial situation,
- The specific current needs of those you serve,
- Your plan for addressing these challenges,
- The outcomes you anticipate over the short- and long-term,
- How they can support your plan, and
- What they can pledge to donate over the next six to 18 months.

Some donors, concerned about their own financial situation, will be unable to contribute money at this time. But if they're longstanding supporters committed to your cause, they may be willing to help in other crucial ways. For example, if you've been forced to cut staff, ask a major supporter to help pick up the slack by updating your Web site or creating a list of local companies that match their employees' charitable gifts. (See "Maximizing matching funds" on page 4.) Or ask a supporter to use his or her influence on friends and colleagues who might be in a financial position to make a donation.

Cash is king

One of the most important things any organization can do to survive an economic downturn is fortify its cash position. Maintain adequate cash by monitoring your position daily and forecasting receipts and disbursements. If you seem headed for a cash crisis and don't have a bank line of credit, consider doing the following:

- Review assets to determine if any can be sold.
- Identify activities that are the biggest cash drains and eliminate them first.
- Move fundraising activity dates forward or attempt to collect pledges earlier.
- Work with vendors to extend payment terms.
- Prioritize disbursements for essential services such as payroll, payroll taxes and benefits.

If you're in serious financial distress, talk with your financial and legal advisors right away. Although it's a drastic step, bankruptcy might be an option.

CUT WHAT YOU CAN

Even if donations haven't dropped dramatically, now is the time to trim unnecessary spending — before you're in a cash crunch. These can be relatively small cuts such as printing materials in black and white instead of color or switching to videoconferencing to reduce travel and meeting costs. Larger cost-cutting initiatives might include merging with another nonprofit or revising your salary and benefits programs.

Most nonprofits view staff cuts as a measure of last resort, so consider a temporary across-the-board pay cut instead. If layoffs become necessary, however, consider which staffers use their budgets most efficiently or are responsible for the most effective programs. Also identify employees whose responsibilities could be assigned to volunteers.

LOOK FORWARD

Getting through the next year is likely to be challenging for most nonprofits. But if you make necessary cuts, increase donor outreach and keep the lines of communication open with stakeholders, your organization can get through this trying time. In fact, you're likely to emerge stronger in the end. ✱

Maximizing matching funds

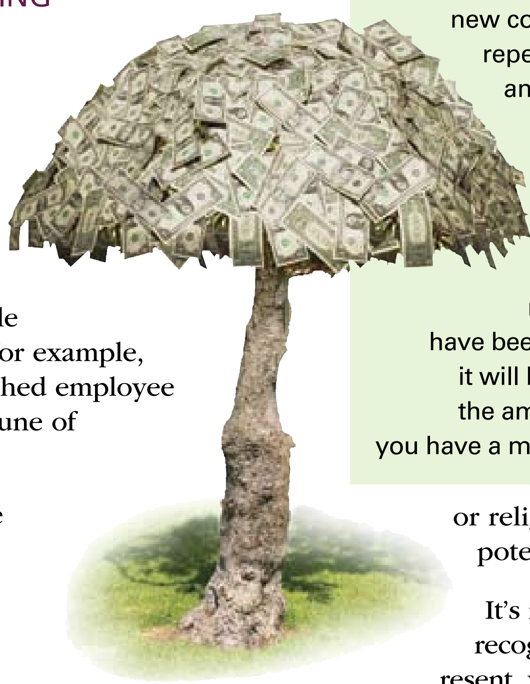
Don't miss out on a major source of support

Double your donations! Receive twice as much funding without a single new donor! If these claims sound too good to be true, you may be missing out on a relatively easy way to raise more money: corporate matching funds. Even in a souring economy, many companies still match their employees' donations to certain charitable organizations as part of their corporate social responsibility efforts.

There are several ways to tap this vein that could double — or more — your contributions from certain givers. All it takes is a little research, a little prodding and a little creativity.

THE MECHANICS OF MATCHING

According to *Giving in Numbers: 2008 Edition* by the Committee Encouraging Corporate Philanthropy, 88% of responding companies said they offered an employee matching-gift program, and the resulting donations accounted for nearly 10% of their total charitable giving. Insurance giant Allstate, for example, states on its Web site that it matched employee contributions to charities to the tune of $993,371 in 2007.



Most matching gift programs are managed by HR departments, which provide employees with matching gift forms. Employee donors send these completed forms, along with their donations, to the charity of their choice. The forms generally provide step-by-step instructions for securing the matching funds from your donor's employer — including deadlines, required support documents and where to send them.

TALKING NUMBERS

Dollar-for-dollar matching is common among participating corporations, but some companies may offer more, others less. Many companies match donations to any nonprofit, but some are more restrictive and won't match donations to, for example, political or religious organizations or those that are potentially controversial.

It's important to note that, although you may recognize the money matching forms represent, your staff may not. Train all employees and volunteers who open donor mail on procedures for handling matching gift forms. Otherwise, they may unwittingly throw away donations.

SIMPLE STEPS

Aside from simply submitting the forms that your donors provide, you can take other simple steps to increase the amount of matching funds you receive. One often-successful approach is to draw up a list of employers in your area that offer matching funds. Typically, you can find this information in annual reports, on company Web sites or by calling

Grow your own garden

In response to the current recession, some companies are trimming or eliminating their matching gift programs. Don't despair — corporate programs represent only one opportunity to raise more cash for your organization. Another is to create your own matching funds pool.

Approach your board and major supporters about matching donations during a certain time period, from certain populations or for a minimum donation amount. Countless parameters are possible. You may want to, for example, match all donations from new contributors in the month of May or match repeat donors who increase their donation amount by $10.

The advantage to your organization is plain: You make the process of donating more attractive, which should, in turn, increase your intake. For their part, donors get to enjoy making a larger contribution than they'd have been able to manage on their own. Knowing it will be matched, they might even bump up the amount of their donation — particularly if you have a minimum amount eligible for the match.

companies' HR, PR or community relations departments. If the company also operates a foundation, matching programs may run through that entity.

Once you have a comprehensive and accurate list, post it on your Web site's donation page, and use it to reach out to existing donors you know work for those companies. Although it can be time-consuming, it's essential that you keep this information up-to-date.

Another strategy is to include a matching funds message in all of your solicitations. Letters might get a P.S. reminding potential donors to check with their HR departments to see if matching funds are available. Post a similar message on the donations area of your Web site or in your print newsletter.

This approach is more passive than compiling a list of companies, but it's also less time-consuming. You simply write a matching funds appeal once, such as: "Does your employer offer matching funds on employee donations? To increase your ability to help, check with your HR department and include the matching gift form with your donation." Then repeat that pithy message at every opportunity.

A LITTLE FOR A LOT

Matching funds programs are essentially "buy one, get one free" offers and they can work as well with donors as similar retail offers work with shoppers. To reap the benefits, remind your donors at every turn to check for matching funds opportunities at work and consider creating your own matching funds pool. Both are incremental efforts that can yield substantial returns. ✱

Form 990, 990-EZ or none of the above?

To determine whether you need to file the new Form 990 for 2008, can use the phase-in period or can skip filing altogether, consider whether your nonprofit:

Was previously exempt from filing a Form 990 (because, for example, you had gross receipts of less than $25,000 annually). If so, you remain exempt under the new rules.

Has gross receipts under $200,000 *and* assets under $500,000. If this is true, use Form 990-EZ until your organization's total assets or gross receipts exceed these thresholds.

Has gross receipts under $500,000 *and* assets under $1.25 million. In this case, you can take advantage of the phase-in period using Form 990-EZ until you file for the fiscal year ending on or after Dec. 31, 2010. For that filing, use the new Form 990.

Has gross receipts under $1 million *and* assets under $2.5 million. If true, begin using the new Form 990 for the fiscal year ending on or after Dec. 31, 2009.

Correction: In some electronic versions of the Winter 2009 issue of this newsletter, the sidebar on page 4 included incorrect information. Above is the correct information. We regret the error.

Creating a solid investment policy

Watching the stock market these days is enough to make a person seasick. Weak economic fundamentals and volatile financial markets make having a written investment policy more important than ever. Investment policies provide nonprofits with decision-making roadmaps so that, whether the market is rocky or smooth, board members can make decisions based on sound strategies, not emotion-driven reactions to current trends.

HIT THE GROUND RUNNING

An investment policy's objective is simple: to ensure that an organization's money works as hard as it can for as long as it can. The policy provides a set of board-approved, written guidelines — such as those related to accountability and permissible types of investments — for investing available funds.

Even if you're a new nonprofit and have little spare cash to invest, you need an investment policy because that situation could — and hopefully will — change. You may, for example, experience a large influx of cash from a successful membership drive or receive an unexpected bequest. With a policy in place, your nonprofit and its investment dollars can hit the ground running.

INCLUDE THE ESSENTIALS

Several areas are critical to cover in your investment policy:

Objectives. In general, your primary goal should be to preserve and protect your organization's assets. Use the objectives area to outline parameters such as your investing time horizon, liquidity needs and the level of risk you're willing to assume to meet your investment goals. Deciding on, and documenting, these parameters will help you balance the inherent risks and rewards of investing.

Investment types. Myriad investment products are available, ranging from stable interest-bearing money-market accounts to moderately risky Fortune 500 company stock to high-risk hedge funds. This section of your policy is designed to specify which types of investments will best serve your organization's goals and risk tolerance.

You must be as clear as possible in stating what you won't invest in, what you will invest in and to what

extent — generally by percentage of total assets. For example, you might green-light corporate bond investments, but cap the amount allocated at any one time to this investment class at 50%. You might also specify that bond investments must carry a single-A rating or better from either S&P or Moody's.

Keep in mind that, although you may be tempted to err on the side of caution, you shouldn't make investment restrictions too tight. They could prevent you from adequately diversifying your portfolio.

Accountability. This section details the decision-making process you'll use to create and maintain your investments, along with specifying who is responsible for day-to-day program maintenance and monitoring. You should also indicate whether all or parts of your program can be managed by outside advisors.

Extraordinary losses. This final consideration is particularly crucial in these hard times, as organizations struggle with how to handle investments that have suffered substantial losses. Your policy might be written to enable you to make changes to your investment portfolio or strategy to preserve capital. If so, you should clearly define the circumstances under which your nonprofit could sell an investment and specify the level of losses and other events that would trigger such a move.

MAKE IT COMPREHENSIVE

Investment policies must be as comprehensive and detailed as possible, and many nonprofits aren't equipped to write one on their own. Fortunately, your CPA can provide you with sample policies and your financial advisor is well equipped to help you create and maintain a policy that will cover all the bases. ✱

5 steps to better delegation

Nonprofits always have more work than time or resources, so the ability to effectively delegate is a vital skill for everyone in your organization. Done well, delegation allows an individual to focus on his or her most important tasks, helps to build bench strength in an organization and gets staffers out of the office before midnight. Done poorly, it can create more burdens than it eases. Here are the five best practices of delegation.

1. CHOOSE TASKS WISELY

Selecting the right tasks to delegate is crucial. Prime candidates are tasks that frequently reoccur, such as sending membership renewal notices, or tasks that require a specific skill in which you have no expertise, such as reconciling bank accounts. Think about how long the task in question takes to accomplish and then balance the value you bring to doing it yourself vs. how you might otherwise spend that time.

Always try to devote your time to the projects that are the most valuable to your organization and can best benefit from your talents. You may be tempted to say, "This will take me longer to explain than to do myself." But if it's a task that you perform often, training someone else for it will free up your time today *and* in the future.

2. PICK THE RIGHT PERSON

Before you delegate a task, consider the person's main job responsibilities and experience and how those correlate with the project. However, keep in mind that, even if employees don't have direct experience with the task, it may give them a welcome opportunity to test their wings in a new area or take on greater responsibility. Be sure to consider staffers' schedules as well, and whether they actually have time to do the job well.

3. PERFECT THE HANDOFF

When handing off a task, be extremely clear about the goals, expectations, deadlines and details. Explain why you chose the individual and what the project means to the organization as a whole. Also let employees know if they have any latitude to bring their own methods and processes to the task. A fresh pair of eyes might see a new — and better — way of accomplishing it.

4. KEEP IN TOUCH — TO AN EXTENT

Delegation doesn't mean dumping a project on someone else and then washing your hands of it. Ultimately, you're responsible for the task's completion, even if you assign it to someone else. So stay involved by monitoring the employee's progress and providing coaching and feedback as necessary.

Remember, however, there's a fine line between remaining available for questions and micromanaging. Constantly peering over staffers' shoulders is a sure way to build resentment and signal employees that you don't trust them.

Always try to devote your time to the projects that are the most valuable to your organization and can best benefit from your talents.

5. ACKNOWLEDGE THE HELP

A good delegator never takes credit for someone else's work. Be sure you generously — and publicly — give credit where credit is due. This could mean verbal praise in a meeting, a note of thanks in a newsletter or a letter to the person's manager. If the project's size and scope warrant it, consider offering a bonus, extra time off or a special gift.

THE ULTIMATE WIN-WIN

With a little knowledge, you can reap the rewards of delegation while sidestepping the pitfalls. Your organization will be better for it, because you'll be putting your time and effort where they'll do the most good, and your staff will get to enjoy new opportunities. ✱

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The expertise you need. The service you deserve.

At Smith & Gesteland, LLP we know that running a successful not-for-profit these days requires more than just dedication and hard work. It takes the assistance of experts who understand the complex needs of these organizations and have the knowledge, experience and service commitment it takes to help them fulfill their missions.

Our Not-for-Profit Service Group consists of professionals focused on increasing the success of organizations like yours. For more than 50 years, our firm has served businesses, organizations and individuals throughout south central Wisconsin. We are delighted to currently work with more than 70 not-for-profits and to have recently been voted Madison's Number 1 accounting firm. We are ready to assist you with a broad range of services tailored specifically to your needs, including:

ANALYSIS AND DESIGN OF ACCOUNTING SYSTEMS

- General ledger accounting
- Functional accounting
- Fixed asset accounting
- Internal controls
- Outsourcing

AUDITS

- Financial audits
- Compliance audits
- A-133 audits

FINANCIAL MANAGEMENT

- Lease/purchase
- Budget assistance
- Cost allocation
- Financing
- Board of director assistance

INFORMATION REPORTING

- Tax-exempt applications
- Federal Form 990
- Unrelated business income
- Lobbying compliance
- Contribution issues
- For-profit subsidiaries

CONSULTING SERVICES

- Computer hardware and software selection & support
- Network support
- Strategic planning
- Human resources
- Policy development

We would welcome the opportunity to serve you. For more information about our services or the ideas presented in this newsletter, please contact us at (608) 836-7500 or mail@sgcpa.com.