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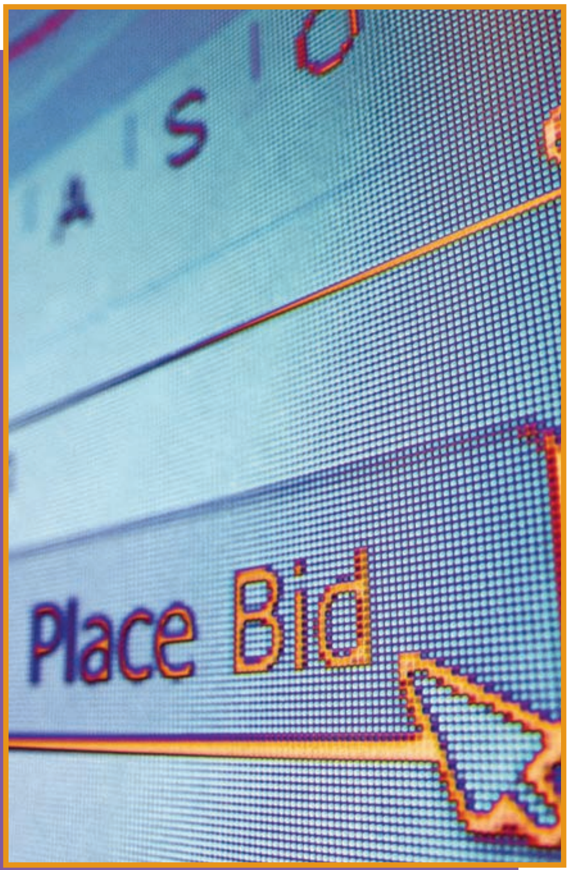

Online auctions

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Have you thanked your
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Take your fundraising efforts into cyberspace

Even without the fast-talking auctioneer pounding his gavel and shouting "sold," online auctions can offer exciting fundraising opportunities for nonprofits. Many already take advantage of them. MissionFish, a service that helps organizations use eBay to raise funds, has more than 10,000 registered nonprofits, and cMarket, a provider of online auctions, conducted its 2,000th auction earlier this year.

There are many reasons to consider conducting an online auction or adding an online component to your live auction event. To be successful, you just need to maximize the advantages and minimize the burdens that are unique to this fundraising channel.

An economic edge

One of the greatest benefits of online auctions is that they can be inexpensive to set up. If you have the time, you can conduct smaller-scale auctions yourself on a site such as eBay. Even if you decide to hire an online auction service, most have few upfront fees — instead taking a small percentage of each sale as payment. Compare this to costs associated with hiring a live auction venue, buying refreshments and paying personnel to work the event.

Online auctions also boast a broader reach, which may result in higher bids. You're not limited to raising money from the people who physically attend your auction event. Essentially, anyone with an Internet connection is a potential bidder. However, for shipping reasons, you may want to limit the geographic locations of your bidders.

A larger pool of bidders means an increased likelihood that two or more people will want the same item and incite a bidding war. It also increases the chance you'll find willing buyers for every item in your auction — even for more unusual offerings such as a walk-on role in a sitcom or a mounted bison head.

Other advantages

Because online auctions are usually conducted over several days, weeks or even months, you'll be able to make changes to your strategy throughout the event. If, for example, an auction item garners more interest than predicted, you can choose to feature it prominently on your auction's home page or in your e-mail marketing campaign.

What's more, auctions conducted electronically create a trail of useful information. You'll be able to see which items drew the most click-throughs, how long visitors spent on the auction page and possibly how your promotional efforts drove traffic to the auction site. Plus, you have the opportunity to include visitors in your mailing list if you add an opt-in question to the screen where you collect their contact information.

Addressing unique demands

Even though there are many advantages to online auctions, don't assume that you'll be able to sit back and watch the money roll in. To get the most out of this fundraising tool, be prepared to adapt to its unique demands. It's essential to:

Present items attractively. Your bidders won't be able to touch and feel the merchandise, so your listing needs to provide excellent photos and accurate, enticing descriptions of the items you're offering. By preparing the initial listing with care, you can minimize the time your staff or volunteers must spend answering questions from potential bidders later on.

Price items right. Don't be shy about setting high opening bids. When cMarket analyzed its customers' bidding histories, it found that the majority of low opening bid prices generated a lot of traffic but didn't necessarily lead to a high final price. On the other hand, unreasonably high opening bids can dissuade interested parties from even taking a bite. Research how items similar to yours have sold recently and set your price accordingly.

Shipping matters

Your online auction's winning bidders won't simply be able to take their items home with them at the end of the auction. So you need to think through the implications of how you'll get the items to their final destination.

Determine how much you'll charge for shipping, handling and insurance, and make sure this fee covers recent postal service increases. (See "Keep postage rate increases from taking a bite out of your budget" on page 6.) Also take into account the cost of packing materials and time to prepare the package. If you have an item that's extremely large, heavy or awkward and that would be cumbersome to ship, consider accepting only local bids or saving it for your next live auction event.

Promote far and wide. Promote your auction event early and often to take advantage of the larger pool of people who will be able to "attend" it. Send several e-mails with a direct link to the auction site and make sure these messages encourage their recipients to forward information about the auction to their friends and family members.

Find the right partner. There are dozens of companies that can help you pull off a successful event. MissionFish and cMarket have a lot of name recognition, but there are also others such as GoCharity and ReadySetAuction that can do everything from providing software and handling the logistics of the auction, to picking up and shipping your items. Talk to other nonprofits that have been successful with online auctions and ask for recommendations. Then compare the fees associated with competing services.

Online doesn't exclude live

Live auctions may still have a place in your fundraising program. After all, these types of events enable your donors and volunteers to socialize and feel like they play an active part in your organization's success. But because online auctions require little planning and minimal upfront costs, consider conducting them as well.

Handle with care: Doing business with board members

Many nonprofits do business with their board members. Board members, after all, often can offer access to better deals or services than an organization might be able to access on its own. However, there's a fine line between a board member helping an organization get fair pricing and the member receiving perceived or actual personal benefits. The latter can threaten a nonprofit's exempt status.

You can enjoy the best of both worlds — working with a company linked to a board member and keeping your exempt status — if you handle these situations carefully. Every effort must be made to avoid conflicts of interest, or even their appearance.

Best practices

To understand how best to handle a potential conflict of interest, consider the following example. An association needs a printer to produce materials for its annual conference. One of the association's board members owns and operates a printing company. He's eager to have his company considered for the work because he knows his business can do the job well and pass along savings that other printers probably won't.

To avoid problems, the association needs to put its project out to bid with a number of printing vendors — including the board member's. All of them should be supplied with identical specifications and receive the same amount of time to reply. The bidding process must provide a level playing field for all contenders.

The association's board — or an appropriate subcommittee — then needs to weigh the merits of all bids received and select the vendor that can best meet its needs. The board member who owns the printing business being considered should recuse himself from the conversation and the final vote so that doesn't put undue pressure on the decision. This way, the board can discuss its options freely.

Put it in writing

If, following a competitive selection process, a board member's company is chosen, the nonprofit must draft a detailed contract that outlines:

- The service the company has agreed to provide,
- Specific deliverables,
- A timeframe for delivering all materials or services, and
- All cost estimates.

A contract should be standing operating procedure for all vendors, but it's essential that this step not be skipped when the specter of a conflict of interest hangs over the relationship.

You also need to realize that, even when you've followed the rules in the vendor selection process, some arrangements will nevertheless give the appearance of a conflict. Your board, therefore, needs to keep detailed notes of all discussions and decisions that went into the business arrangement. When the board's actions and recordkeeping are scrupulous, it can answer any concerns with documented evidence that everything was above board.

Eyes wide open

The best way to keep conflicts of interest from ever arising is by having a solid conflict-of-interest policy that outlines what is and isn't permissible and spells out any exceptions. Your policy should define situations that would constitute a conflict. For example, are only board members prevented from doing business with your group or are their family members excluded as well?

Also list the steps you'll take to prevent conflicts — such as asking board members to disclose the names of companies they have a material financial interest in. And decide how you'll investigate and act on suspicions of conflict.

Make sure your board members thoroughly understand the importance of avoiding conflicts of interest and what their responsibilities are for alerting you of potential conflicts. After all, they can't take the appropriate steps if they don't know they're necessary.

Good working relationships

Conflicts of interest don't have to blindside your organization. If you treat potentially sensitive situations with care, make good-faith decisions and document every step, you'll be able to create working relationships with board members of which everyone can be proud.

Your organization may need to worry about FIN 48

Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), was issued by the Financial Accounting Standards Board (FASB) last year to help organizations understand how they should account for uncertainties in recognizing income tax on financial statements. FASB took this action to correct ambiguities caused by the fact that there was no specific guidance on this issue in its previous Statement No. 109.

Just because your nonprofit is considered tax exempt doesn't automatically exempt it from FIN 48. Depending on how you operate, you may need to comply with the rule.

Whom does it apply to?

Because FIN 48 deals with income tax, most nonprofits assume that it applies only to for-profit businesses that generate income. But if your organization earns unrelated business income (UBI) — income from operations that are regularly carried out but not substantially related to your exempt purpose — that income may be subject to local, state, federal and foreign income taxes, and FIN 48 generally applies.

For example, an art museum might operate a café to generate income. Selling refreshments to museum patrons and the public isn't related to the museum's primary mission. The museum, therefore, has UBI and needs to think about FIN 48.

You might also become subject to FIN 48 if you're involved in a joint venture with an organization that isn't tax exempt. Or you could be subject if your organization's tax exempt status is under investigation, because, for example, it has engaged in political activities that aren't allowed of nonprofits.

Clarifying uncertainty

Even though UBI generally results from business that's regularly conducted and not substantially related to an organization's exempt purpose, the IRS makes several exceptions. You're not subject to federal unrelated business income tax if:

- Your gross UBI is less than $1,000,
- The business is conducted solely by volunteers,
- Most of the merchandise you're selling has been donated, such as thrift shop merchandise, or
- The business is run mainly for the convenience of your organization's members, such as a school cafeteria.

This is where the "uncertainty" part of "Accounting for Uncertainty in Income Taxes" comes in. If a school cafeteria regularly sells lunch to office workers in the neighborhood in addition to its students and faculty, its income may or may not be unrelated. The school may feel it's well within the rules, but the rules aren't precise about how many students vs. nonstudents the cafeteria can serve. The taxability of this income, therefore, is open to interpretation.

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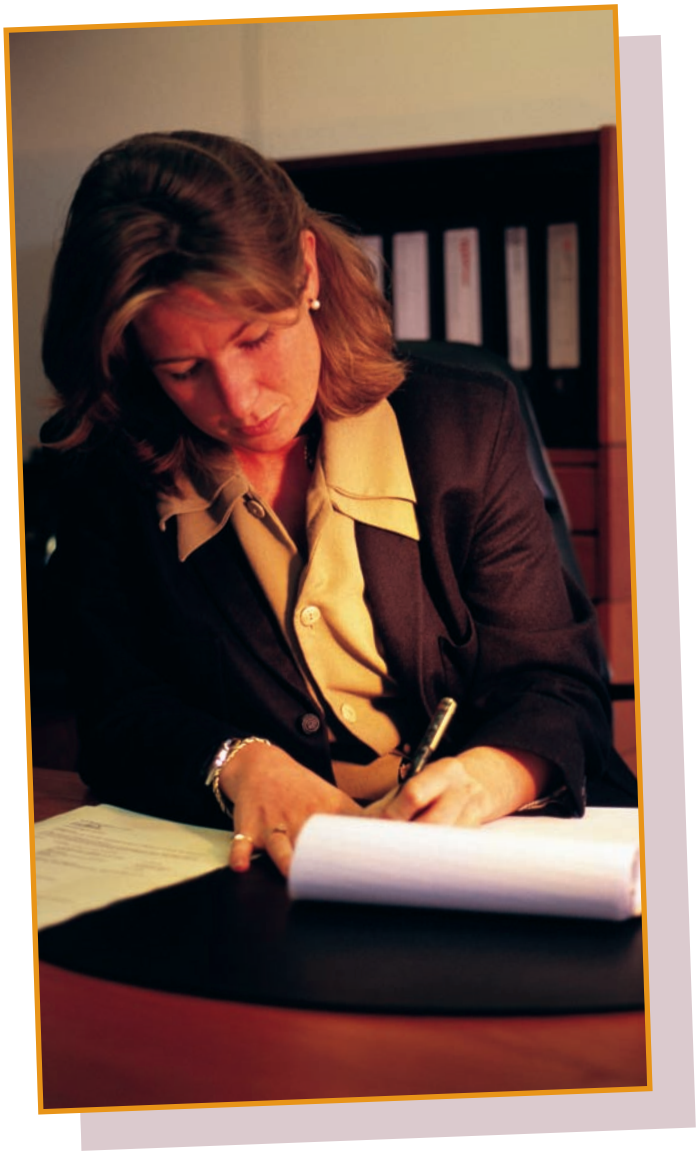
Recognize and measure

If you're uncertain about any of your nonprofit's income, your financial statements need to reflect this. FIN 48 mandates a two-step process:

1. Recognition. You must determine how confident you are that you can recognize a particular tax position — that, for example, the income you receive is tax exempt — and that this position ultimately will be upheld by the IRS. You should apply a "more likely than not" standard, meaning that you're more than 50% certain of your position. If your organization suspects it won't meet the more-likely-than-not standard, it must treat the income as taxable on its financial statements.

2. Measurement. If you believe your organization is more likely than not to prevail, you move on to the measurement step. According to FASB, that means determining the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority. So if you're more than 50% sure that 90% of income from, for example, a cafeteria is exempt, you must recognize only 10% of the income as UBI on your financial statements.



Taking action

Nothing about FIN 48 is straightforward, and the above is only a brief overview of a very complex accounting issue. For these reasons, you should work with a tax expert to review your operations and determine whether it applies to you. If it does, you'll need to implement FIN 48's guidelines beginning with the first fiscal year beginning after Dec. 15, 2006.

Keep postage rate increases from taking a bite out of your budget

Postage rate hikes earlier this year mean that some organizations are experiencing a significant increase in their operating costs. If you're sending anything larger than a standard letter via the U.S. Postal Service, you now pay between 20% and 40% more to mail it than you did this time last year, according to the Alliance of Nonprofit Mailers.

Other outreach methods, such as telephone campaigns or e-mail solicitations, might be just as — or even more — effective.

Thus, mailing annual reports, conference brochures, membership appeals and donation solicitations that include labels, a notepad or other small gifts takes a much bigger bite out of your budget. But there are steps you can take to minimize the effect of these price increases on your organization.

Solicitation strategies

The postage rate hikes present the perfect opportunity to re-evaluate the effectiveness of your nonprofit's mail solicitation strategy. Understanding that the post office now charges more for "flats," or oversized materials, consider whether these mailings might be just as effective in a standard letter or postcard format.

You might also want to reconsider your overall use of mail. Other outreach methods, such as telephone campaigns or e-mail solicitations, might be just as — or even more — effective.

Be cautious, however, about making changes to campaigns that are already underway. It might cost more to redesign or reprint a solicitation than it would to simply add more to the postage budget. So crunch the numbers before you make any hasty decisions.

Cost containment

Now is also the ideal time to clean up your mailing lists. Even the best mailing list eventually becomes outdated as donors move.

What's more, data entry mistakes can result in undeliverable addresses and frequent contact can mean duplicate entries for single contacts. It's well worth spending the time to scour your lists and your returned mail pile to ensure you're sending only to accurate addresses. Doing anything less is throwing money away.

Also know that the Postal Service offers different rates based on how your mailings are prepared. Those that are delivered to the post office presorted and grouped by ZIP code receive a more favorable rate. So consider working with a qualified mailing house to handle your communications. Or visit the Postal Service Web site (www.usps.com) for information on how you should prepare mailings to take advantage of lower rates.

Catalyst for change

Postal increases should be a catalyst for taking a step back and looking closely at the efficiency of your fundraising and communications strategies. Just keep in mind that you need to consider the benefits of your current mailing program as well as the costs.

If direct mail programs have been wildly successful in helping you raise funds or attract participants to events, you may be better off staying the course and looking for savings elsewhere in your organization.

Have you thanked your volunteer manager today?

Where would your organization be without its volunteers? Chances are this is an indispensable group. But have you ever stopped to think about how they're able to do the things they do, and about the recruiting, organizing, training and cajoling that goes on behind the scenes? More important, who provides all that support?

If you haven't thanked the people who manage your volunteers lately, you're probably past due. Nov. 1 has been designated International Volunteer Manager Appreciation Day, and it's the perfect opportunity to thank these indispensable individuals.

International Volunteer Manager Appreciation Day was launched in 1999 by the International Volunteer Manager Association (IVMA). Showing your appreciation on this day doesn't have to be complicated or time-consuming. Consider the following simple ways to recognize your volunteer managers:

- Take them to lunch,
- Organize a breakfast spread, a cake and coffee gathering, or a similar celebration in the office with the rest of your staff,
- Ask your board to write thank-you notes to your volunteer managers,
- Encourage your volunteers to call or e-mail their volunteer manager to express their appreciation for the support the manager provides,
- Give your volunteer managers the afternoon off or the option of taking off a day of their choosing,
- Designate your prime parking spots as "Volunteer Manager Parking Only" on November 1, or
- Write a letter to the editor of your local paper touting the work that volunteer managers — yours as well as those of other organizations — do for nonprofits.

You can find more celebration ideas, logos, sample letters of appreciation and information about how other countries are celebrating the day at the IVMA Day Web site (ivmaday.org).

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