

NONPROFIT AGENDAS JULY 2009

IMPROVE CASH MANAGEMENT TO CONTROL BUDGET DEFICITS

In an economic downturn, when most nonprofits simultaneously face revenue losses and the growing needs of their constituencies, it would be wonderful to find a simple and painless way to improve cash flow. However, there's no easy solution to the cash crunch.

Hard work and a steadfast focus on your mission are essential. And to make it all work, you need to evaluate your operations for potential expense-cutting, bring in revenue in a timely manner and develop a simple cash flow forecast.

Getting the cash in the door

The first step toward good cash management is reviewing the sources of your funds. If your nonprofit collects fees for services, you'll want to be even more attentive to accounts receivable than you would in healthier economic scenarios. For example, if your payment terms are "30 days after the receipt of service," consider contacting your clients on day 31 or soon thereafter.

For clients with a history of paying late, you might work out a payment plan before providing the service. Don't view this measure as harsh — if you're sensitive to your members', students' or clients' financial challenges by offering payment terms, they may be more apt to continue to use your services. This is especially true if they can find less costly options in the marketplace.

If much of your revenue comes from foundation grants, you'll need to make sure that your grant-supported programming ties to your primary mission. If not, refocus it there. Many foundations with dramatic asset-value losses have cut back, or eliminated, grant making this fiscal year.

Funders continuing to support charitable efforts want to make sure that their money goes to the population with the greatest need.

Particularly if your services target hunger, the homeless, employment opportunity or housing issues, you need to show how your program and your mission fulfill a greater community need. Use newsletters, your Web site, meetings and events to communicate specific cases — show how your organization has directly affected the lives of people in your community.

Other sources

After all of your regular avenues for cash have been exhausted, you'll need to turn to other sources. Your cash reserves, or the investments your board has designated for future use, offer other ways to support your operations, and the time to use them may be now.

For example, if you have an endowment that was initially restricted by the donor to be maintained "in perpetuity," you have no legal right to spend the amount of that gift — unless the donor removes the restriction. But if your endowment was designated for a certain purpose by your board, the board may change that designation and release the funds to support current programming.

Watching your expenses

The continued flow of revenue into your not-for-profit organization is important, but don't neglect the flow of cash leaving for operating expenses. Scrutinize areas of potential cost-cutting that won't affect services to your community. Look first at your largest expenses where change will have the greatest effect on cash flow:

Rent or lease expense. Try to negotiate a lower monthly rent, a rent holiday or even a change in payment timing that works better with your income stream.

Travel costs. Compare the costs of different airlines and hotel chains. Evaluate whether a video conference or phone conference might be able to take the place of a face-to-face meeting. If you currently pay for a phone conference service, explore free web-based options.

Payroll. Closely analyze your staff members. While it might be difficult to let employees go, your organization's health may depend on it. Look for the employees who aren't holding their own or are less utilized than others. Determine if any of your organization's processes could be improved to increase productivity. For example, by analyzing the addresses of a home health care worker's patient assignments, you may be able to reduce travel time while adding units of service provided. If all employees are irreplaceable, consider asking the full staff to cut back their hours or take one or two unpaid days off per month.

Supplies. By comparing costs, joining a buying club or contracting with your supplier, you may be able to reduce the cash you need for supplies. Your suppliers also may be willing to contribute a percentage of your annual purchases as an in-kind donation to your cause. It doesn't hurt to ask.

Surviving the drought

Strong cash management tools are important for short-term decision making, and they'll help your nonprofit control budget deficits and survive to accomplish its long-term goals. The investment that your organization makes in this process is likely to be paid back many times over the next several years.

A cash flow forecasting model

Developing a forecasting model to monitor your cash flow is as important as your decisions to cut costs or negotiate payments. A model based on your monthly operating budget is a good starting point. Follow these three steps:

1. Use a spreadsheet to view your annual budget by month, including beginning and ending cash.
2. As actual financial results become available, replace that month's budget with the actual results, which will change your future cash needs.
3. Enter into the spreadsheet model any changes to the budget based on current decisions.

Cash flow forecast: Nonprofit organization example						
	Actual Budgeted		Budgeted			
	April	May	June	July	Aug.	Sept.
Beginning cash	\$58	\$1,818	\$2,183	\$693	\$203	(\$237)
Revenue – billed services	\$14,020	\$12,250	\$11,000	\$12,000	\$12,050	\$13,000
Special events	—	—	—	—	—	—
Other grants, contributions	—	—	—	—	—	—
Total revenue	\$14,020	\$12,250	\$11,000	\$12,000	\$12,050	\$13,000
Salaries, related costs	\$8,150	\$7,975	\$8,500	\$8,500	\$8,500	\$8,500
Occupancy	850	850	850	850	850	850
Other program expenses	810	960	960	960	960	960
Other overhead	2,450	2,100	2,180	2,180	2,180	2,180
Special event costs	—	—	—	—	—	—
Total expenses	\$12,260	\$11,885	\$12,490	\$12,490	\$12,490	\$12,490
Ending cash balance/needs	\$1,818	\$2,183	\$693	\$203	(\$237)	\$273

ALL EYES ON GOVERNANCE

More and more, “governance” crops up in discussions about the nonprofit sector. So, why is the spotlight shining on how nonprofits govern, or manage, themselves — as opposed to, say, what they do for their communities? And what does this mean for your organization?

Reform changed the focus

This is a relatively recent development. In the late 1980s, a nonprofit board's responsibility to its constituency became better defined. In the 1990s and early 2000s, several high-profile scandals

involving accusations of misspent funds, fraud and other wrongdoings led to demands for greater accountability and transparency.

Organizations and businesses whose purpose is to assist nonprofits in defining good management practices developed more tools to help boards implement good governance. Among these were guides outlining board, chief executive and staff responsibility for establishing policies. Organizations such as board source were founded to help build effective nonprofit boards by providing relevant information to the nonprofits and their boards.

Such efforts were capped last year when the IRS issued revised form 990, which places significant focus on governance issues through the questions that nonprofits are required to answer. For example, part VI of the core form is exclusively devoted to governance and policy questions. Many other areas of the form require policy-related information such as procedures for setting compensation levels, gift acceptance policies, procedures for tracking the use of grants, and much more.

Accountability

Donors want to know that the contributions they make are used appropriately. They assume that, if an organization is well governed, it's also handling its resources responsibly. Donors, thus, are paying more attention to how the nonprofits they support are managed, as are lenders.

This has led states and the federal government to pay more attention to how organizations govern themselves. In 2004, the panel on the nonprofit sector was formed by independent sector, a nonpartisan leadership forum for charities, foundations and corporate giving programs.

The panel was created at the encouragement of the US Senate finance committee so that it could make recommendations to congress to improve the oversight of charitable organizations.

Through the efforts of 24 nonprofit and philanthropic leaders, as well as several advisory groups, the panel has produced a series of recommendations for congress to improve the oversight and governance of charitable organizations.

Strong governance

In response to the added stress on governance, some organizations have taken measures to strengthen management by their boards, staffs and others. For example, in 2001 the Red Cross formed a Governance Task Force composed of board members, management and outside experts to review that organization's governance practices.

The resulting report, *American Red Cross Governance for the 21st Century*, asserted that a nonprofit's governance must be considered in light of its mission, size, operation and culture, among other factors. The report recommended that nonprofits:

- Strengthen their board's focus on strategy, policy, resources and general oversight,
- Place more detailed oversight responsibility on the executive committee,
- Put greater emphasis on skills and experience when selecting new board members, and
- Establish a governance committee.

The Red Cross defines "governance committee" as one that is responsible for overseeing executive compensation and board leadership. The board's responsibility for governance is "to provide objective oversight of operations, set policy, monitor the organization's plans, and delegate to management responsibility for running operations and executing policies and plans."

Governance vs. Fundraising

This level of responsibility may be different from the duties many nonprofit board members are accustomed to — in particular, fundraising.

As organizations establish separate governance committees, many are finding that board members with fundraising talents may lack governance skills. If this is true of your organization, consider establishing committees to address governance and fundraising separately.

Some nonprofits establish fundraising advisory committees made up of non board members. This allows the board to maintain more independent oversight of fundraising activities because it's not directly involved with them.

Board responsibility

As a result of the increased emphasis on governance, nonprofit boards can no longer be just a "rubber stamp" for the decisions of the organization. Board members need to understand good governance and take the responsibility to ensure that their organization is adhering to best governance practices. This also may mean reorganizing the board so that representatives have the expertise to make sure good governance is in place. As an alternative, the board can engage outside experts to advise them in this area.

High-priority governance

Good governance begins with your board of directors, which, acting in the public interest, ensures that your organization fulfills its duties. The Panel on the Nonprofit Sector has established four categories of principles to provide the backbone for your board's policies:

1. **Legal compliance and public disclosure.** Compliance requires a clear organizational mission; continuous monitoring of activities to ensure they're in line with that mission; and an annual review of Form 990 by the board.
2. **Effective governance.** Governance includes conflict of interest, whistleblower, and document protection and retention policies; regular review of insurance coverage and risk mitigation measures; board review of organizational and governing documents at least every five years; and possible hiring of a chief compliance officer.
3. **Strong financial oversight.** Oversight includes investment, compensation and joint venture investment policies; CEO performance reviews; and a board review of the budget, finances and compensation policies.
4. **Responsible fundraising.** Fundraising covers a policy on gift acceptance and board involvement in a fundraising policy and decisions.

FORM 990: SCHEDULE G CHANGES TRACKING OF FUNDRAISING, GAMING

With new Form 990 tax return requirements taking effect May 15, you'll need to become more aware of, and advise on, how your nonprofit tracks information for its tax return. One new schedule that will likely apply to many organizations is Schedule G, "Supplemental Information Regarding Fundraising or Gaming Activities."

If your nonprofit reports revenue of \$15,000 or more from one of the following, you must prepare Schedule G:

1. Fundraising activities. Activities to solicit funds include e-mail, mail, phone and in-person solicitations. Your nonprofit must report all agreements for professional fundraising services. And, for those individuals or entities to whom you paid at least \$5,000 for fundraising services during the year, you must list the 10 highest paid. Additionally, you need to report the nature of the service, whether the fundraiser had custody or control of the contributions, and the total receipts connected to the fundraising services. You also must disclose the amount paid to, or retained by, the fundraiser and the amount paid to, or retained by, your nonprofit.

2. Fundraising events. All organizations that report \$15,000 or more in gross receipts from fundraising events or special events — such as a golf outing, a charity dinner or an annual ball — must supply additional information about particular events that raised \$5,000 or more. Direct expenses from the event need to be reported in separate line items for cash prizes, non-cash prizes and rent/facility costs. There's also a catchall line for other direct expenses. Although your organization doesn't need to detail these, the IRS has indicated that nonprofits should retain in their records a summary of all other direct expenses in case they're requested in an audit.

3. Gaming activities. Extensive reporting is required if you use gaming activities — such as bingo or raffles (including pull tabs) as part of your fundraising. In addition to gross revenue, you need to report the same direct-expense information as you do for fundraising activities. And you must indicate in which state(s) the gaming activity is conducted, whether you are licensed appropriately in that state and the number of volunteers that were needed to produce the event. The IRS also wants to know the *percentage* of volunteer labor used for the activity. Although the IRS doesn't give a reason why this information is important, it is likely trying to ascertain the reasonableness of the wages actually paid for the particular event.

NEWS FOR NONPROFITS

Non-cash contributions: know your reporting obligations

When your charity receives non-cash contributions, don't overlook these reporting requirements: First, you may have an obligation to complete Part IV of Form 8283, "non-cash charitable contributions." It's the donor's responsibility to submit the form to you for completion, because only the donor knows the value of the donation and whether Form 8283 is required. Part IV acknowledges that your organization is qualified to receive charitable donations and provides general information. The signer of the acknowledgment must be an official authorized to sign your organization's tax returns, or someone specifically designated to sign Form 8283.

Second, file Form 8282, "Donee Information Return: Sale, exchange or other disposition of donated property," if you sell, exchange, consume or otherwise dispose of donated non-cash contributions within three years of when they were received. The form isn't required for disposal of 1) publicly traded securities, 2) items valued at \$500 or less or 3) items consumed or distributed for charitable purposes. File within 125 days after the date of disposition. Finally, your organization will need to track non-cash contributions by type for Form 990, Schedule M, if your organization received more than \$25,000 in non-cash contributions during the year.

2009 IRS focus

IRS initiatives this year affecting nonprofits include a new charitable spending initiative, continued work on nonprofit governance, non-cash contributions and a study of student loan organizations:

Charitable spending initiative. The IRS says it will look at fundraising, public contributions, grants and revenue from related or unrelated trades or businesses to learn more about the sources of funds in the charitable sector and their impact on the accomplishment of charitable purposes. It also plans to review officer compensation, fundraising expenses and program service activities to learn the effect each has on the funds that are available for charitable spending.

According to the agency, it will focus on organizations with unusual fundraising levels and those that report unrelated trade or business activity but have low levels of program service expenditures.

Nonprofit governance. The IRS plans to develop a checklist to be used by agents when they examine exempt organizations. The checklist is intended to help determine whether the organization's governance practices have impacted the tax compliance issues identified in the examinations. The agency also will begin a training program to educate IRS employees about governance implications. A third area of focus is identifying additional form 990 governance questions that could be used in compliance initiatives.

Non-cash contributions. This initiative will focus on how non-cash gifts are valued, the expenditures involved in the transactions and the accuracy of the form 990 reporting in this area.

Student loan organizations. The IRS study will look at internal and external information to identify student loan organizations with related for-profits that may be providing impermissible benefits to insiders or third parties.

The IRS announced these initiatives in its "work plan for FY 2009," which was contained in its first annual report, published in November 2008.

Tax-exempt entities ring in at 1.8 million

According to Lois Lerner, director of the IRS's Exempt Organizations Division, there are approximately 1.8 million tax-exempt organizations in the United States (compared with 1.1 million tax-exempt organizations in 1995). The division processed more than 70,000 exemption applications in fiscal year 2008, Lerner stated at a Nov. 25 press conference.

MP&S OFFERS HUMAN RESOURCE COMPLIANCE REVIEWS

Our Human Resource Compliance Review provides clear direction for developing and implementing effective strategies that minimize risk and support your business objectives. Our experienced team will evaluate your current HR strengths and key areas for improvement.

Additional information about HR compliance reviews and our firm's other HR consulting services can be found by contacting Eric Marks, Principal-in-Charge, Human Resource Consulting or Amy Hart, HR Manager.

SPOTLIGHT ON MP&S

MP&S Discusses Mark-to-Market Accounting

In an article on mark-to-market accounting that was recently published in *Accounting Today*, **Steven L. Henning**, the partner-in-charge of the Marks Paneth & Shron **Litigation and Corporate Financial Advisory Services Group**, discusses how a forensic review of balance sheets can identify potential weaknesses that could become problematic due to illiquidity or a downturn in certain markets – and/or a company's change in fortune.

In addition, Steve recently participated in a podcast with the associate editor of *TheCorporateCounsel.net* and discussed not only the implications of mark-to-market accounting, but the factors that influence the practice and where regulators such as the SEC and the Financial Accounting Standards Board (FASB) find themselves in the debate.

MP&S Partner Elected to the JHI Executive Committee for the Region of the Americas

MP&S Partner William H. Jennings has been elected to JHI's 2009-2010 Executive Committee for the Region of the Americas, which is made up of representatives from North and South America. With offices in the Americas, Europe and Asia-Pacific, JHI is a leading international association for independent business advisors, financial consulting and accountancy firms. JHI facilitates communication, exchange, networking and resource sharing among its members worldwide. MP&S is both a founding member of JHI and one of the largest firms in the association.

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FOR FURTHER INFORMATION

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