MARKS PANETH

ACCOUNTANTS & ADVISORS

MARKS PANETH NONPROFIT AGENDAS SEPTEMBER 2014: STRATEGIES AND SOLUTIONS FOR CONTINUING TO GROW YOUR NONPROFIT ORGANIZATION

GETTING OFF ON THE RIGHT FOOT: MERGER TRANSITIONS SET THE STAGE FOR A SUCCESSFUL ALLIANCE

When two nonprofits merge — as in any alliance that blends two staffs and sets of operations — challenges arise. But knowing what you're up against, and where the pitfalls lie, is half the battle.

Alliances abound

Mergers continue to dot the nonprofit landscape as organizations team up to share resources and expenses, or to avoid a duplication of services in their communities. But a merger won't automatically result in improved economic strength.

Many mergers fail to achieve the financial and strategic results predicted during the planning stage. That's because organizations often make two major mistakes (faulty assumptions and insufficient planning) on the front end, and face two major hurdles (execution and cultural differences) on the back end, once the contract has been signed.

Postmerger hot spots

In a successful blending of two organizations, a lot of legwork — and thoughtful analysis — has taken place before the day of the actual merger. Both nonprofits have, for example, gone through a score of due diligence tasks, making sure that the merger is financially a sensible endeavor.

Following are some of the key issues nonprofits will encounter once the decision to merge is final. Most should be addressed before the date the merged organization goes live. These hot spots will challenge the new management team *and* lay the foundation for the new entity:

***Retaining constituent support*.** Change may make the nonprofits' past supporters jittery. The new organization will need to assure its supporters, by word and by action, that it will fulfill its reshaped mission as well as or better than either organization has in the past.

Communication with constituents will never be more important. The organizations need to make sure that their individual contributors, funders and volunteers, as well as the audience they serve, are fully on board as the new organization sets off to reach its goals.

***Blending staff*.** Merging two staffs often means staff reductions. The transition team, Human Resources and management will examine ways to reduce redundant positions — one, not two, controllers will be needed going forward, for example.

So, how does management decide who stays and who goes? The team can compare employees against their measurable skills, assessing who has performed better in their previous posts. Or they can go a step further by having the “candidates” behaviorally tested as a part of “applying” for the remaining jobs. Which employees have the best personality traits, for example, to stay level-headed under pressure and adjust to change?

***Managing employees*.** In a merger, those who remain after a staff reduction may still worry about changes made to their position or the new supervisor they report to. They also may be concerned that their salary or benefits will be cut.

It’s the job of the new leadership to create a sense of continuity and assure employees that their individual strengths and value to the organization won’t be lost in the shuffle. Building trust is an essential ingredient in employee retention. Ongoing communication is the best way to get there.

The transition team may have already recommended a similar — or even a better — employee benefits package that will kick in after the merger. Improved options are often the case with the new organization’s health insurance plan. A larger pool of employees often equates to economies of scale, and better insurance coverage may become affordable.

Whether employee benefits packages improve or not, management should highlight any pluses under the new plan and consider adding inexpensive perks (a free yoga class at noon, no-cost 15-minute massage sessions, and so on) to help boost morale.

***Standardizing operations*.** The differences in how the two organizations previously handled their daily affairs may seem overwhelming at first. Merging two IT systems is often a bear of a task that will test all of the organizational skills of the IT management team. A timetable for the changes and ample resources to make it all happen are essential, as are patience and attention to detail in the employees assigned to the task.

Undoubtedly, there will be standardization challenges for other functional areas of the new nonprofit as well. Take accounting, for example. Different accounting systems may be used, and it must be decided which one should prevail. The “up” side: This will be an opportunity to objectively choose which existing practices are most efficient and effective for the new organization.

***Standardizing policies and procedures*.** It can be said that an organization is only as good as the policies it adheres to and the procedures it follows. Standardization won’t happen overnight. The new board of directors will need to methodically review the policies, from gift acceptance to whistle blowing, that have been in place.

Again, this is a chance to look for best practices. Procedures for upholding those policies will likewise need to be streamlined or created.

And in the end

There's no question that the transition after a merger is a lot of hard work. But if the transition team and the combined organization's leaders do their job, the new nonprofit will not be as good as the sum of its parts — it will be better.

THE ANNUAL BUDGET: WHO'S ON FIRST (AND SECOND AND THIRD)?

Developing an annual budget can be complex and time-consuming. The job will be less daunting if everyone knows their role. Each nonprofit handles budgeting a little differently, but here's a quick summary of the key roles in this team project:

***Management and staff*.** Following the not-for-profit's strategic plan, the CEO or executive director and the finance director will decide which programs and activities to include for the coming year. Then staff responsible for each activity will crunch the numbers to contribute to the budget. They should base revenue and expenses on historical data — what's happened in the past — and on any expected changes for the coming year. Accounting usually will create the budget for overhead and pull together the numbers from the rest of the staff to create the first budget draft.

The draft should include the previous year's budgeted and actual totals, and the current year-to-date actual and budgeted amounts. It also may be helpful to annualize the current year numbers. Having this information in one place will facilitate answering questions as the process unfolds. Notes on the logic behind any new revenues or expenses and on any items that will change from the current year should also be included in the budget draft.

***The finance committee*.** If your nonprofit has one, the finance committee will review the budget and likely ask questions. Its job is to ensure that the budget is reasonable and supported by sufficient revenue to be sustainable.

The committee will need to understand whether the budget is done on the cash or accrual basis and may ask to see the effects of your plan on cash flows. The budget may go through several drafts before it's ready to be presented to the full board.

***The board of directors*.** The board often takes the finance committee's recommendation and approves the budget as presented. But when significant new programs are in the works, the board may have revisions, too.

The approved budget will be the organization's road map for the year. But adjustments may be needed as the year progresses — if, for example, revenues turn out to be different than projected or unexpected expenses surface. These changes will require board approval.

It's the prerogative of the board members to disallow unbudgeted expenditures. The responsibility of "proving" why unplanned expenditures — for instance, $1,000 to fund a new program activity — are necessary or desirable generally falls to staff.

NEWS FOR NONPROFITS

Online fundraising scores on "give local" day

More than 305,000 donors contributed over $50 million in this year's inaugural Give Local America fundraising drive, a single-day charitable event held in May. The average donor gift was approximately $113. The donations were distributed to 7,700 nonprofit groups participating in 120 communities, according to event organizer Kimbia, a provider of online-giving technology.

The event, which introduced many participating nonprofits to online-donation technology, celebrated the 100th anniversary of U.S. community foundations. Donations were funneled to nonprofits in two ways: 1) Community foundations collected and distributed the funds to participating area nonprofits, and 2) Network for Good filled that role in communities where a foundation wasn't involved. Kimbia received a fee of 2.99% of funds processed to cover project management and related expenses. A second-year event is scheduled for May 2015.

New "natural" expense reporting on the runway

The Financial Accounting Standards Board (FASB) has continued deliberations and tentatively decided to improve the reporting of expenses for not-for-profit entities (NFPs). Their new approach would likely require all nonprofits to present expenses by both functional and natural classifications on their financial statements. Currently, all nonprofits generally must use functional reporting, but only health and welfare organizations must also use reporting by natural category.

FASB's Accounting Standards Codification® defines natural classification as "a method of grouping expenses according to the kinds of economic benefits received in incurring those expenses." Rent, salaries and employee benefits are types of classifications used under the natural classification method. Under the current proposal, not-for-profits could present the information in the statement of activities, in a separate statement of functional expenses, as a narrative discussion or in footnotes in a matrix format. An exposure draft that details the new requirement and requests comments is expected to be issued later this year.

# of hashtags counts

If you’ve already incorporated posts to Twitter as part of your social media strategy, heed this advice: Use, but don’t *over*use, the popular hashtag (the # symbol usually followed by a few words or a sequence of letters, numbers and symbols).
Buddy Media analyzed user engagement from 320+ Twitter handles of the world’s biggest brands, reaching these conclusions: Tweets with one or two hashtags get 21% higher average engagement than tweets with no hashtags. But tweets with three or four hashtags get 17% *less* engagement than tweets with no hashtags. Using an existing hashtag that’s trending will increase your exposure even more.

SPOTLIGHT ON MARKS PANETH

Two Clients Receive White House Accolades

We are proud to announce that two clients of the Nonprofit and Government Services Group have been recognized by the White House for their outstanding achievements:

President Barack Obama has awarded **BAM** (the Brooklyn Academy of Music) the National Medal of Arts. The National Medal of Arts is the highest award given to artists and arts patrons by the United States government. It is given annually to those who are "deserving of special recognition by reason of their outstanding contributions to the excellence, growth, support and availability of the arts in the United States." Please click here to read more.

First Lady Michelle Obama visited students at the Manhattan headquarters of **Global Kids** to learn about their work on critical domestic and foreign policy issues and to discuss her Reach Higher college access initiative. Global Kids, Inc. is a leading nonprofit educational organization for global learning and youth development. Please click here to watch a NY1 segment on the event.

We are proud of all our clients, so please don’t forget to keep us informed of your organization’s achievements/awards, we enjoy spreading the good news.

Incorporating In Delaware: Will New York’s 2013 Non-Profit Revitalization Act Affect You?

The New York Non-Profit Revitalization Act became effective on July 1, 2014, enabling many organizations to complete the New York incorporation process without the previous delays. Since historically, many New York-based not-for-profits have incorporated in Delaware, the question arises as to whether they should continue to do so.

[Robert Lyons](), Tax Director, Exempt Organizations, and Sean Weissbart, an attorney with Morris & McVeigh, have written an article, "[The Effect of the New York Non-Profit Revitalization Act of 2013 on Incorporating New York-Based Charities in Delaware]()," that provides an historical overview of incorporating in New York and the details and the benefits of why incorporation in Delaware may also make sense. The article has been published in the latest issue of *Trusts and Estates Law Section Newsletter* by the New York State Bar Association.

Marks Paneth Named A Top 3 Forensic Accounting Firm for the 5th Straight Year

Readers of the *New York Law Journal* (NYLJ) have again ranked Marks Paneth as one of the top three forensic accounting providers serving the New York legal community in the publication's Annual Reader Rankings Survey. This is the fifth year in a row that we have received this honor and the second year that we have been ranked #2.

More than 8,000 votes were cast. Marks Paneth is the only major regional firm to be selected as one of the top three firms in the category of forensic accounting for all five years of the survey – 2010, 2011, 2012, 2013 and 2014. For more information about our firm's forensic accounting services, please contact [Steven Henning](), Partner-In-Charge, Litigation and Corporate Financial Advisory Services, at 212.201.3179 or [shenning@markspaneth.com]().

As NYC Commercial Real Estate Boom Continues, Avoid These Common Mistakes

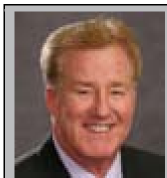
For commercial real estate investors, the boom mentality continues, and those seeking opportunities continue to flock to New York City. That can spell trouble if they are not prepared for the consequences real estate investment can bring, including results that are hard to foresee. To learn more, please [read the article]() authored by Real Estate Partner [Abe Schlisselfeld](), originally published in *The Metropolitan Corporate Counsel.*

A Commitment to Social Responsibility

At Marks Paneth, integrity, caring, leadership and teamwork are part of our core values. We are committed to social responsibility and to having a positive impact on the communities in which we live, work and do business as well as on our profession. The firm and our professionals are actively involved in a wide range of programs and charitable organizations. Our partners and principals serve on the boards of more than 50 nonprofit organizations. We also have one of the region's leading Nonprofit and Government Services practices.

The firm was recently honored for our community involvement and as part of that tribute, a short video was created. We encourage you to watch it to learn more about who we are.

MEET OUR LEADERSHIP TEAM



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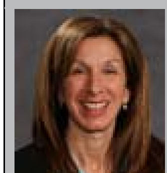

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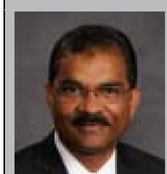

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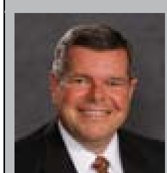

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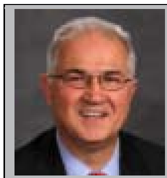

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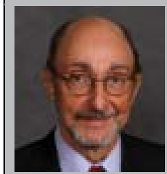

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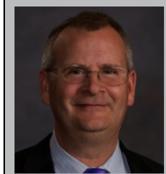

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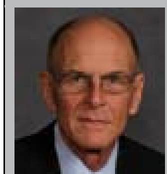

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If you have questions, please contact any member of the Nonprofit and Government Services leadership team listed above. In addition, more information on the Marks Paneth Nonprofit and Government Services Group, as well as all of the firm's services and industries, can be found at www.markspaneth.com**.**

IRS CIRCULAR 230 DISCLOSURE

Treasury Regulations require us to inform you that any Federal tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.