

NONPROFIT AGENDAS JUNE 2009

SUGGESTIONS FOR OPERATING IN A DOWN MARKET

Widespread economic weakness presents a particular set of challenges for nonprofit organizations. When the economy falters, many nonprofits experience both reduced cash inflows and rising demand for services. This is particularly true for organizations that provide food, housing and job-search support.

Even if you've built up reserves for such situations, you can't depend on them to last a long recession. What then can your organization do to avoid getting caught in the crunch?

Manage your investments

If you cringe when your monthly or quarterly investment statements show that your organization lost more than it contributed last month, you're not alone. Unfortunately, this is often the case in a bear market.

What's important to remember about your investments, particularly if they're in permanently restricted endowment funds, is that they exist to preserve your organization's longevity. The funds are in your investment account *in perpetuity*. While it may seem like those investments are losing a lot of money, those losses are, in fact, unrealized. Until you actually sell the investments, those losses aren't real — and can, and likely will be, recovered when the market bounces back.

Nonetheless, it's prudent to meet with your financial advisor and ensure that your investments are well-diversified among stocks, bonds, cash and other securities, according to your organization's investment goals and risk tolerance.

Take a look at your organization's formal investment policy, particularly if it hasn't been reviewed and revised in a while. Ensure that it reflects not only changes in the economy, but changes to your organization as well.

Monitor financial results

Your bookkeeper or accountant may provide financial results for monitoring your cash position, revenue intake and expenditures on a monthly or quarterly basis. Consider bumping up the frequency of these reports, and request them weekly or biweekly. By monitoring your financial results more often, your organization can react quickly to cash crises or drastic revenue declines by cutting expenditures pronto.

Ensure your bookkeeper or accountant understands your need for accurate and timely financial information, and be sure they keep up with bookkeeping daily. That way they won't have to spend much extra time when reports are needed.

Pinpoint where to cut

You'll want to get feedback from your staff on where you can save money on an ongoing basis — and begin right away. It's wise to initiate a hiring freeze — just make sure that you think it through. For example, if your marketing director resigns, now may not be the time to forgo that important position that can bring new revenue to your organization.

Likewise, you'll likely want to halt purchasing except for items you presently need. If, for example, you ax your monthly office supply order and buy items on an as-needed basis, you might benefit more from that cash preservation than from quantity discounts. Or, suspending the search for a permanent employee and using temporary help may be less costly in the short run, which may make sense if you're focused on *today's* cash position.

Also take a look at your budget. Does it provide for inflationary increases or set-asides for future payments? Now may be the time to eliminate both.

The public is aware of budget pressures facing all organizations — businesses as well as nonprofits. So communicate with your donors, supporters and the community about the difficulties facing your not-for-profit. Give them the facts, particularly when you can quantify the effects of smaller contributions on your future program services.

Turn to your peers

You and your organization are not in this alone. Contact other nonprofits and brainstorm with their leaders on how to get through these tough times. Your conversations may lead to some great ideas — or even collaboration. And remember, working through an economic downturn will only make your organization stronger.

THE YIN AND YANG OF IT

Preparing annual audited financial statements

When it's time to prepare annual audited financial statements, you may find it difficult to determine where the responsibilities lie. With your auditor on one side of the equation and your management and board on the other, it's important to clearly define — and understand — each party's roles and responsibilities. Remember, both sides have a similar goal in mind: an end product that fairly and accurately represents your organization's financial health.

Responsibilities of the auditor and management

At the most basic level, your auditor is responsible for expressing an opinion on your financial statements. Beyond that, the auditor is responsible for obtaining *reasonable assurance* that your financial statements are free of material misstatement — be it from error or fraud.

Management, on the other hand, is responsible for developing estimates, such as the allowance for bad debts, adopting sound accounting policies, and establishing, maintaining and monitoring internal controls, as clearly outlined in the American Institute of Certified Public Accountants' standards. Although your auditor may make suggestions about these items, it isn't his or her responsibility to institute them or to ensure they're working properly.

What your auditor can do is evaluate whether the assumptions that management used to make decisions on internal controls, accounting policies and deterring and detecting fraud are current and applicable — and won't materially misstate the financial statements. But deciding what to use, and when to use it, is strictly management's responsibility. If the audit is performed in accordance with Government Auditing Standards, the restrictions on what an auditor can do to assist are even more stringent.

Leadership team

During these processes your auditor and board of directors can be great resources for your management team. Your auditor, however, can't help management pick and implement policies. The auditor must maintain independence, in both fact and appearance, in the public eye.

Conversely, your board — often an untapped resource — can assist you. As your organization's watchdog, it has significant fiduciary responsibilities that dovetail many of your duties. Often, members have related experience and suggestions for completing the job that they're willing to share. Also see "Get a board that can help" on this page.

Format and comparisons

Annual financial statements are designed to help you manage your organization. Financial statement items — such as debt ratios, program vs. administrative expense ratios and restricted vs. unrestricted resources — can indicate how a nonprofit is doing. So when your nonprofit's leadership team is preparing them, you want to make sure the statements are as user friendly as possible.

One of the best ways to see the big financial picture is to compare your budget, your year end internally generated financial statements, and the financial statements generated during the annual audit. This comparison can be completed more easily if the format of your annual audited statements is as close as possible to that of your internal financial statements and budgets.

Through a review of internal vs. audited statements, you can look for any large differences in individual accounts resulting from audit correcting adjustments — these are often an indication of an internal accounting deficiency. You'll also be able to spot any significant discrepancies between what was budgeted for the year and the actual outcome.

These variances will help you to evaluate your organization's performance and plan for the following year. Also, your financial statements should make it fairly easy to determine which of your resources are restricted for particular purposes or time periods.

A nonprofit's statement of activity and statement of financial position could show a strong financial status overall. But if the financial resources giving rise to the positive results are restricted to a particular purpose beyond regular operating activities, your management and board could come away with a mistaken impression of the organization's financial health.

For example, donations — either investments or cash — given strictly to keep a maintenance fund for your building could show assets at a higher value even though your organization was barely able to break even on its basic programs. So, statements should clearly identify restricted resources when they are received and while they are held by the organization at any point in time.

A takeaway point

In the end, auditors and management have the same goal: a correct and user-friendly set of financial statements. Although most of the responsibility rests on management's shoulders, only by working together can the two sides be successful.

Get a board that can help

Sometimes the board of directors' role is overlooked in annual financial statement preparation — and that's a mistake. Management must make sure that the board meets its fiduciary duties in overseeing this function.

The best time to start is when you're assembling your board. Make sure your prime candidates possess these qualities:

- *Knowledge — and possibly professional skills — of use to the organization,*
- *Passion about the mission,*
- *Commitment to the organization's success, and*
- *A willingness to devote adequate amounts of time.*

Once the best board members are in place, encourage them to ask questions, come up with new ideas to implement and keep an open dialogue, especially on new topics. All of this will help board members contribute to your organization. And having a board that is able to help guide the organization through significant financial and accounting policy decisions will pay off.

HOW SHOULD YOU RECRUIT AND RETAIN EMPLOYEES IN THE CURRENT ECONOMY?

In any economy, nonprofits face the challenge of recruiting and retaining good employees. Typically, you're competing against the private sector, which often offers more alluring salaries and better benefits.

In this weak job market, there's a glut of qualified job seekers. So now that you have the pick of the crop, make sure you choose wisely. And, once you hire a candidate, do what you can to keep that person — regardless of the broader economic environment.

“Selling” your organization

Many applicants will be attracted to your organization's mission. But don't forget that you're competing with other organizations that also may project that “warm and fuzzy” feeling the applicant seeks.

You need, therefore, to be upfront in your outreach about the responsibilities of the position. Don't waste the applicant's time or yours by leaving room for false expectations. On the other hand, make sure you mention all benefits and perks associated with the position.

Determine the type of individual that you're truly looking for *before* you begin interviewing job candidates. What skills and experience will add value to the organization? What type of person would make a good cultural fit? Make sure you communicate these thoughts to the interviewee.

Finding the best

Certainly, past experience is an indicator of how a candidate will perform in the future. But it can be difficult to see what a candidate brings to the table. Ask questions to help interviewees demonstrate their abilities and successes, such as:

- Have you helped implement procedures that have improved processes?
- How have you proven to be innovative and resourceful?
- Can you demonstrate the use of multiple skills?

These types of questions will help draw out a candidate and help you assess that person's value to your organization.

Keeping the best

Once you've found and hired the best, you need to keep them. An employee survey is a great tool for soliciting feedback on what your employees like — and dislike — about your HR policies and your organization in general. The survey can be formal or informal. Some larger organizations hire outside consultants to conduct detailed surveys and analyze the results. This may not be plausible for your organization, and a few questions circulated via e-mail or hard copy in employees' mailboxes can be just as effective.

An exit survey for departing employees also can be useful, and the results may surprise you. While you may think salary is the reason why an employee chooses to resign, you may find that lack of recognition, your organization's culture and poor peer and management relationships trump money.

Some areas to consider when working on retention strategies are: 1) flexibility in working schedules and locations; 2) defined career paths; 3) time allowed for personal lives; 4) positive recognition; and 5) communication within the organization.

Avoiding replacements

You may find that hiring and keeping good employees is one of the toughest challenges your organization faces. But the reality is that the time and thought you invest in the selection process — and the small things you can do to keep employees happy — are far less costly than refilling positions again and again.

5 STEPS TO AN IDEAL BOARD MEETING

1. Do the legwork. After a discussion with your board chair, your executive director (ED) should prepare an *agenda*, assigning responsibility for each item to a specific board member. Make sure the agenda involves making at least one decision but isn't too full. This reinforces a sense of

purpose and accomplishment. Include a timetable for each topic. At least one to two days before the meeting, a board *packet* should be distributed that includes the agenda and relevant materials, such as minutes from the last meeting, financial information, proposals and any other material that will help facilitate discussion.

2. Get to know each other. For most board members, it's important to get to know fellow members and talk about matters of mutual importance. This can be accomplished by a short pre-board-meeting "reception" (with beverages and a light snack) that allows members to mingle. Staff can help facilitate communication by introducing new members.

3. Set limits. During the actual board meeting, it's critical to stick to the agenda. Topics and action items shouldn't drag on during the meeting or from one meeting to the next. The ED and the board chair must limit discussions and encourage a vote when a decision is required. Long meetings succeed only at losing member interest.

4. Continue to educate. It's a good practice to incorporate some form of learning into each meeting. For example, a staff member could briefly present a topic that's important to the organization or highlight one of its programs. Knowledgeable board members are more apt to find ways they can help the organization.

5. Follow the plan. Between board meetings, all members need to make sure that they fulfill any commitments, such as the committee work for which they're responsible. In many organizations, members need some prodding from staff to ensure that they're on task, performing duties such as calling necessary committee meetings. The board chair should make sure that timetable deadlines listed in the original agenda have been met.

NEWS FOR NONPROFITS

Note these giving trends

For charities that depend largely on donations, these difficult financial times probably mean a downturn in giving. Or do they?

History should be a good indicator of future trends. In each of the previous recessionary periods since the Foundation Center, which provides research tools to nonprofits and grant makers, began collecting data in 1975 (and then in 1980, 1981–82, 1990–91 and 2001), giving to U.S. foundations actually increased slightly.

Although not as cheery of an outlook, a report from Giving USA, which follows trends on charitable giving, found that giving slows during recessions, although only by about 1%. Longer recessions generally show a giving decline of about 2.7% annually.

A survey for the first nine months of 2008 from information provider GuideStar showed that 35% of nonprofits had a downturn in giving compared with the same period the previous year. And 38% reported an increase in contributions.

Older Americans planning to increase volunteerism

Four of every 10 Americans age 50 and older plan to increase their volunteer work in the next five years, according to a report released by AARP. The report, *More to Give*, was a joint effort between AARP and Civic Enterprises and studied volunteerism trends in the baby boom and "silent" (one generation older) generations.

Other key findings showed that the main motivations of these generations to volunteer are to "help people in need" and to "stay healthy and active." The biggest obstacles preventing older generations from volunteering are lack of time and the need to make money.

Is your postage meter compliant?

The United States Postal Service set a deadline for the replacement of all rotary/mechanical postal meters with digital ones by the beginning of 2009. This replacement process began in

1995 and removed more than 750,000 rotary meters, which were more susceptible to tampering and fraud than their digital successors.

Although you can no longer download funds to a rotary meter, postal meter customers have until June 30, 2009, to apply for and receive a refund for any remaining postage on a rotary meter. For more information, contact USPS Postage Technology Management at ptm@usps.gov.

E-mail marketing tips

In a down economy, using some of your marketing budget on e-mail can be a good investment. E-mail has a return on investment of \$45.05 for every dollar spent, according to an October 2008 report by the Direct Marketing Association. This compares to other noncatalog direct marketing that has an ROI of \$15.55.

MailerMailer publishes an *Email Marketing Metrics Report* every six months, and its latest report indicates that:

- Sundays and Mondays are the best days for sending e-mail marketing messages,
- E-mails with shorter subject lines generally are more successful, and
- Personalized messages receive higher click rates on their links, but tend to get lower opening rates (probably because they're blocked by spam filters).

So consider putting snail mail on the back burner and save postage, but plan your e-mail campaigns wisely.

JUNE 30 DEADLINE FOR COMPLETION OF 2008 FOREIGN BANK AND FINANCIAL ACCOUNTS REPORT

Certain US persons may be required to file a Report of Foreign Bank and Financial Accounts (FBAR), Form TD F 90-22.1. This report must be filed each year whenever a US person has a financial interest in or signature authority or other authority over any financial accounts (including bank, securities or other types of financial accounts) in a foreign country. An FBAR is required when the aggregate value of these financial accounts exceeds \$10,000 at any time during the calendar year.

The FBAR is an information return with distinct filing requirements separate from those of individual, corporate or partnership returns. Requests for an extension of time to file an FBAR are not granted. ***This means that FBARs for calendar year 2008 must be filed on or before June 30, 2009.***

Additional information about FBAR can be found on the IRS website or by contacting David Gannaway in our firm's Litigation and Corporate Financial Advisory Services Group.

MP&S OFFERS HUMAN RESOURCE CONSULTING SERVICES

In times of economic uncertainty, many organizations are finding that they need to scale down their workforce and redesign the responsibilities of their current jobs. While the economic climate is creating many challenges, it also is presenting opportunities to evaluate current positions, reorganize tasks and recruit candidates with superior skills, knowledge and abilities.

The experienced HR Consulting specialists at Marks Paneth & Shron can help guide you through the process of examining staffing needs, conducting job analyses, developing and revising job descriptions, workflows and selecting the best candidate for your business needs.

Additionally, we can work with you to establish and implement job-related processes and procedures such as compensation, workforce development, recruiting, performance appraisal benefits and perquisite planning.

Additional information about our firm's Human Resource Consulting services can be found by contacting Eric Marks, Principal-in-Charge, Human Resource Consulting.

SPOTLIGHT ON MP&S

MP&S Assembles Team Offering Services for US Taxpayers Disclosing Foreign Accounts

Marks Paneth & Shron has assembled a team dedicated to offering services for US taxpayers disclosing foreign accounts at UBS AG and other foreign banks. The **MP&S Foreign Disclosure team** will support taxpayers and their attorneys by preparing amended returns, arranging for installment agreements and representing taxpayers before the IRS and other tax authorities and providing due diligence, forensic accounting and fraud investigation services.

Former Assistant Special Agent in Charge of IRS Criminal Investigation Joins MP&S as a Director

David Gannaway, a 20-year veteran of the IRS where he was an assistant special agent in charge of the Criminal Investigation Division's New York Field Office, has joined the MP&S Litigation and Corporate Financial Advisory Services Group as a director. Mr. Gannaway will play a key role in complex white collar fraud investigations and in the firm's newly expanded foreign disclosure services.

MP&S FAST FACTS

- The 32nd largest accounting firm in the nation and a leader in accounting and auditing (*Accounting Today*)
- The New York Area's 15th largest accounting firm and one of the five fastest growing firms in our market (*Crain's New York Business*)

FOR FURTHER INFORMATION

If you have any questions, please contact **Michael L. McNee, CPA, Partner-in-Charge** of the Nonprofit and Government Services Group, at 212.503.8954 or mmcnee@markspaneth.com or one of the following members of the group:

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