Profitable Solutions For Nonprofits

How to keep unrestricted funds flowing

Ready, set, search
4 steps to hiring executives

Are board members hitting the ground running?
Tips for a sound orientation process

Newsbits

PLUS!
Getting your 15 minutes and more

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How to keep unrestricted funds flowing

Not-for-profits have traditionally relied on the government and local United Way agencies to supply a significant portion of their unrestricted funds, but cutbacks from these sources have left many nonprofits struggling to cover everyday costs.

Although not-for-profits are often very successful at bringing in temporarily or permanently *restricted* funds, they still may find themselves financially strapped. To ensure your organization has enough cash to operate, you'll need a sufficient supply of *unrestricted* funds.

Communication is key

As the name suggests, unrestricted funds are operating revenues that don't have specific restrictions, so organizations can use them for general operating purposes. Nonprofits typically use these assets to help defray core operating expenses such as utilities, salaries, rent, supplies and other normal costs of doing business.

Probably the best way to increase unrestricted gifts is simply to ask for them. Educate supporters about why they're important. Explain that unrestricted gifts are easier to manage and offer greater flexibility than restricted gifts. Because of that, your organization can focus more time and energy on furthering its mission and expanding its programs, knowing that it has adequate funds to keep the doors open and the lights on.

One way to convey this message is in your fund-raising materials. Be candid about your desire to increase your intake of unrestricted funds, and explain that these donations allow your organization to respond to ever-changing needs as it deems appropriate.

Also, remind board members that donors create the restrictions. Sometimes board members restrict funds themselves even though the funds are technically unrestricted.

4 tips

In addition to communicating with givers, here are some other ideas to keep unrestricted gifts flowing:

1. Focus on individual giving. More than 80% of the money raised by U.S. charities comes from individuals, according to the BBB Wise Giving Alliance. If your nonprofit relies on individuals for the majority of its revenue, you should focus your fund-raising efforts on individuals rather than corporations, foundations and other grant makers.

2. Make donating easy. Design fund-raising programs to encourage a predictable, steady supply of support. One effective technique is to develop a recurring giving program, which enables donors to make regular, automated donations on a monthly, quarterly, semiannual or annual basis.

Offering "unit of service" options is another effective method. It defines needs in terms of a specific population that can be served or a gift that can be made through the donor's support. For example, a charity that strives to end hunger and poverty and foster self-reliance by giving animals to families around the world asks supporters to make a donation that covers the cost of a specific animal. Another charity, a sports league for underprivileged youth, asks donors to sponsor an individual athlete or a team.

3. Encourage multiyear commitments. Your most dedicated supporters often view their support as critical and are likely to give on a continuing basis. So challenge them to commit to multiyear funding. If you can obtain three-, five- or 10-year commitments from your best donors, you can count on a certain amount of unrestricted funds coming in each year.

4. Assess fees against restricted gifts. Because nonprofits will always need or want to accept some temporarily or permanently restricted gifts, make allowances for covering the administrative costs associated with these donations. Many organizations have policies that allow them to use a small portion of these restricted funds to defray the cost of managing and monitoring these assets. The fees don't necessarily encourage increases in unrestricted giving, but they help ensure that some portion of inflowing funds can also be used for immediate needs.

A final word

Although it's ideal to have funds in each category, it's essential that your nonprofit have an adequate and replenishing supply of unrestricted funding to keep its operations and programs strong and sustainable. Savvy not-for-profits will accept and address this need, rather than simply hoping that the funding chips will fall in their favor year after year. ✧

Net asset categories

In the not-for-profit world, net assets are classified into three categories:

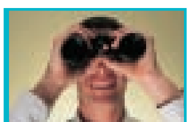
1. Unrestricted. These are operating revenues that are free from donor-imposed stipulations.

2. Temporarily restricted. These are subject to donor-imposed stipulations that can be removed with the passage of time or circumstances. Keep in mind that these assets are recorded when an unconditional promise is received from the donor.

3. Permanently restricted. Also called endowments, these are subject to lasting restrictions by the donor, who mandates that investment income on the principal be used in a specific way. The principal is permanently restricted or held in perpetuity.

Ready, set, search

4 steps to hiring executives



Selecting a new chief executive or other senior officer is one of the most important decisions your not-for-profit board is likely to face. Turnover among executive directors tends to be high, with various surveys pegging the average tenure at about three years.

Considering it's likely your board will have to conduct an executive search at some point, it's best to be prepared. By taking the time to develop the framework for a successful search, you'll be able to act quickly when it's time to hire a new leader. A successful plan will address four fundamental aspects of the process.

1. Creating a search team

An advantage of having a predetermined search team is that members can stay abreast of compensation trends and be on the lookout for possible successors to current executives. The board chair usually appoints the search chair and other members of the search team. The board chair and a human resources representative may also be permanent members. Search teams vary in size, but most organizations find that a team of three to five people works best.

One search team objective is to determine whether you'll need to hire an executive search firm. But before doing so, look around. The best person for the job may be someone you know, such as a board member, employee or volunteer.

The decision to use a search firm will hinge on numerous factors, including the breadth of the search required, the position's complexity and responsibility level, and the possibility that the best candidates might not be actively seeking a new opportunity. Screen prospective firms in advance so you can quickly hire one when the time comes, and find out whether it charges a flat rate or a salary percentage (which is usually about one-third).

2. Determining candidate criteria

Before a search begins, you also should have comprehensive, up-to-date job descriptions for key executive positions that detail the knowledge, skills, abilities and attitudes required. The organization's strategic goals should also be integrated into the descriptions. This keeps the focus on the specific actions that both current and future executives must perform to further your nonprofit.

As part of ongoing succession planning efforts, the search team should periodically re-evaluate your nonprofit's leadership needs. If your organization is moving in a new direction, your next leader might need a different set of skills and experiences.

3. Considering compensation

Your board and the search team should have a shared philosophy about compensation. Factors that influence compensation decisions include:

- Your nonprofit's size and complexity (for example, whether it has affiliate or subsidiary organizations),
- Geographic location, service category and financial stability,
- Desired qualifications, and
- Competitiveness of the total package in relation to comparable organizations.

Consider whether your goal is to compensate in line with similar regional or national organizations, or with similar positions in the for-profit sector. Also, determine whether compensation will be fixed or have a variable pay component, such as bonuses or incentive pay. And decide what benefits and perks, if any, you'll offer.

In setting compensation, be sure to benchmark what you expect to pay against comparable positions in the not-for-profit arena. This will help you avoid the risk of intermediate sanction penalties, which the IRS can assess against individuals who receive or approve excessive compensation. Benchmarking can also help you develop more creative and competitive offerings.

> Be sure to document findings or conclusions that form the basis for compensation decisions, especially those that might be unusual.

Salary surveys of the nonprofit sector, such as the annual GuideStar report (see "What's the latest in compensation?" on page 7), can help you evaluate your compensation. Be sure to document findings or conclusions that form the basis for compensation decisions, especially those that might be considered unusual, such as a salary or benefits package that is much more lucrative than those offered by peer organizations.

4. Selecting the right candidate

A good interview process is essential to selecting the right candidate. So consider how you'll conduct the interview process. Who will be involved? What format will you use (such as one-on-one or group interviews)? Also prepare some thoughtful questions that reflect your organization's needs and culture.

Avoid using the standard array of interview questions — such as "What is your biggest weakness?" and "Where do you see yourself five years from now?" Instead, develop a list of open-ended questions designed to elicit responses that will help you evaluate a candidate's suitability for your organization.

Revisit and finalize

Before beginning a search, you'll still need to revisit your search plan and finalize many details. But by having guidelines and parameters in place, you can jumpstart the process. This will allow you to concentrate on selecting the best candidate, rather than on deciding how to proceed. ✧

Are board members hitting the ground running?

Tips for a sound orientation process

Nonprofit boards hold positions of significant trust and responsibility. But to successfully execute their governance role, they must be adequately prepared. A sound orientation process is essential to developing committed, knowledgeable and effective board members.

Following are some steps you can take during the orientation process to ensure board members can fulfill their responsibilities to the fullest.

Reinforce expectations

A common reason for board discontent and turnover is that members often are surprised by the time and financial commitments expected of them. Minimize this problem by clearly communicating expectations at the start of the recruiting process and reinforcing them at orientation.

Be as open and explicit as possible. Tell board members how many committees they'll be expected to serve on and any attendance and participation requirements. Also discuss personal giving expectations. Most organizations require board members to "give or get" a certain amount in donations — ideally, they'll do both.

To avoid any ambiguity or misunderstandings, include a list of expectations in the board manual or use board member contracts that include pledges such as: "I will make an annual financial contribution at a level that is meaningful to me" or "I will actively participate in one or more fund-raising activities."

Explain roles and responsibilities

It's critical that board members understand their legal and fiduciary responsibilities, which include acting with common sense and informed judgment, avoiding conflicts of interest, and ensuring the organization adheres to regulations. The board chair or an outside advisor should illustrate what these concepts mean.

Board members should also receive a written description of their basic responsibilities, which typically include:

- Helping the organization define and focus on its mission and purpose,
- Selecting, supporting and evaluating the chief executive,
- Ensuring effective organizational and strategic planning,

- Monitoring programs and services,
- Ensuring adequate resources and helping manage them effectively,
- Working to enhance the organization's public image,
- Recruiting new board members and assessing board performance, and
- Ensuring legal and ethical integrity and maintaining accountability.

Along with conveying responsibilities, help board members understand and distinguish between the different, but complementary, roles of the board and staff.

Immerse them in your organization

Provide an overview of your nonprofit's mission, history, programs and services, legal and organizational structure, and financial situation. Also, ask key staff members and advisors to make presentations. For example, the development director might discuss fund-raising goals and your accountant could explain financial statements. Consider more in-depth orientation for certain committee members, such as a detailed financial presentation for those on the audit committee.

Another way to quickly assimilate new members is to arrange for them to observe your mission in action by touring a facility, assisting clients in a volunteer capacity or observing field work.

Offer support

Your new members must have the support and tools they need to succeed. Provide every member with a board manual containing copies of all important organizational documents.

It's also beneficial to have experienced board members mentor new ones to help them grow into leadership roles.

Build a foundation for success

A good orientation process is the foundation for a productive relationship between not-for-profits and their boards. If possible, conduct a group orientation for new board members before they begin their service. And try to present the same orientation materials to new members who join the board later.

By taking the time to impart the knowledge new members need, you'll help ensure their tenures start off on the right track. ✧

Getting your 15 minutes and more

"In the future everyone will be famous for 15 minutes," said Andy Warhol. But most not-for-profits need much more than just 15 minutes of fame — they can't get enough good publicity. Here are four easy ways to garner positive PR for your organization:

1. Target the right media. Go beyond simply sending the occasional news release and become familiar with potential media targets. Get to know assignment editors, their key sections and special features, target audiences, and publication and broadcast schedules. By taking the time, you can pinpoint the most suitable outlets for your news.

2. Time your news. When it comes to good publicity, timing can be everything. You might increase your odds of coverage by submitting requests at the start of a new publication cycle. Another tactic is to host an event or release an important announcement on a typically slow news day. For example, daily newspapers and local television stations may be particularly receptive to requests for coverage on Sundays.

3. Make it local. Providing a local angle on an issue of national importance will increase your appeal to the media. Whenever possible, put forth an expert source from your organization who can talk knowledgeably about the local impact of a national story.

4. Carpe diem. Raise your nonprofit's profile by putting out news releases regularly rather than just occasionally. A variety of events, such as the addition of a key staff member, an operational milestone, a new grant you've received or the kick-off of a fund-raising campaign, can warrant a press release. As with your other efforts, direct press releases to the media outlets that are most likely to use them — for instance, local newspapers that have a section devoted to community news. Also, position yourself and your organization as an authority. By noting trends and other interesting items, you can get the attention of reporters and editors.

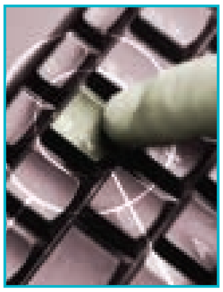
Although your not-for-profit probably has a million things to do besides court publicity, don't neglect this critical area. Getting your organization in the news in a positive way broadens its exposure, enhances its credibility and enables you to spread the word about your mission to potential volunteers and donors — free of charge.

Newsbits

A disaster response checklist for financial executives

The American Institute of Certified Public Accountants has developed a form to help chief financial officers, controllers and other senior financial officers navigate through disaster recovery.

Divided into five phases, the checklist outlines issues that organizations need to address at each stage to understand damage and minimize ongoing risks. The tool is designed to recognize the responsibility financial executives have to ensure employee safety and security first, followed by minimizing damage to operations and finances. Download the checklist at http://www.aicpa.org/news/2005/disaster_response.htm. ✧



IRS explains e-file waiver for exempt organizations

The IRS has issued guidance on steps tax-exempt organizations can take to waive the electronic filing requirement for the 2005 tax year.

According to Notice 2005-88, taxpayers can request waivers in situations where they can't meet electronic filing requirements due to technology constraints or where compliance would result in undue financial burden.

The IRS noted that in certain limited circumstances some entities may not be able to meet the requirement, which applies to returns for taxable years ending on or after Dec. 31, 2005. For tax year 2005 returns that are due in 2006, affected tax-exempt organizations are those with $100 million or more in assets that file 250 or more returns a year.

For tax years ending on or after Dec. 31, 2006, the electronic filing requirement will be expanded to include the 2006 tax year returns of corporations and tax-exempt organizations with $10 million or more in total assets. Additionally, private foundations and charitable trusts will be required to electronically file their Form 990-PF, regardless of their asset size. Corporations and tax-exempt organizations outside of announced parameters can voluntarily e-file. Notice 2005-88 is posted at www.irs.gov and in Internal Revenue Bulletin 2005-48. ✧

What's the latest in compensation?

Considered one of the most comprehensive resources available on not-for-profit compensation, the *2005 GuideStar Nonprofit Compensation Report* contains Form 990 salary and benefits data on more than 83,000 U.S. public charities.

Detailed information is indexed by job category, gender, geography, nonprofit type, budget size, state, and more. National, state and regional reports are available in PDF or CD-ROM formats; prices range from $159 to $339.

The 2005 report includes information on at least one paid position at each of the public charities surveyed for the report. The top positions in the following job categories, as well as CEO/executive director, are represented:

- Administrative,
- Business,
- Development,
- Education/training,
- Facilities,
- Financial,
- Human resources,
- Legal,
- Marketing,
- Operations,
- Program,
- Public relations, and
- Technology.

For more information or to buy the report, visit guidestar.org. ✧

Link, Murrel & Company

Helping nonprofits fulfill their missions

As a nonprofit executive, you know that operating your organization successfully today is a challenge, to say the least.

You not only have to deal with more intense competition for limited support, you also have to use your resources as efficiently as possible to stay in the black. And of course you have to make sure your organization complies with increasingly complex reporting requirements and regulations — and achieve your goals, too.

This is where Link, Murrel & Company can help. We specialize in helping nonprofits with a full range of accounting, audit, tax, consulting and compliance services.

Our nonprofit clients include a wide range of organizations in the greater Orange County area. Our emphasis on developing proactive, personal and value-added relationships with our clients has helped us build a strong reputation for quality, reliability and performance that exceeds expectations.

Link, Murrel & Company is a proud sponsor of the Volunteer Center of Orange County and supports their mission of being an "essential partner in improving the quality of life in Orange County by connecting community resources, increasing volunteerism, and building professional capacity in nonprofit organizations." The Volunteer Center of Orange County strives to encourage people to become personally involved in making the community a good and welcoming place to live, work, and raise a family. They have developed ways for people to best use their valuable time and talents to help others.

The Volunteer Center of Orange County recently hosted the Inaugural Conference of the Center for Social Enterprise, which provided nonprofit executives, board members and social investors with information about the concept of social enterprises and attempted to increase their awareness and willingness to consider social enterprise strategies for sustainability. The Volunteer Center is dedicated to helping nonprofit organizations generate earned income in support of each organization's mission.

Please visit their website at www.volunteercenter.org.

We hope you enjoy this issue of Profitable Solutions for Nonprofits and that it provides you useful information. Recommendations contained in this newsletter may not be appropriate in certain situations. Before implementing any of the ideas suggested, please contact our office for further inquiry.

We invite you to call Wm. Gary Crouch at (949) 261-1120 to answer any questions you might have about various nonprofit issues or to discuss how we can help your organization meet the challenges facing not-for-profit organizations today.

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