

SUMMER  
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# Nonprofit Observer

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**Advantages of sponsoring another charity**

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**10 tips for keeping volunteers**

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- Design and implementation of fiscal systems and policies
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- Conversion of accounting systems
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**Fiscal Management Associates, LLC**  
Professional Services to Not-for-Profit Organizations

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# Struggling? Try running your organization like a business

It's a well-known truism in the corporate world: Organizations that don't evolve run the risk of becoming obsolete. But instead of anticipating and reacting to market demands like their for-profit counterparts, many nonprofits hold on to old ideas about how their organizations should be run.

If your organization is struggling and you're not sure how to move forward, consider adopting some corporate business practices. Though the essential missions of corporate business and nonprofits are different, the ways to achieve them often are the same.

## DRAW A MAP

The strategic plan — a map of near- and long-term goals and how to reach them — lies at the core of most for-profit companies. If your nonprofit doesn't have a strategic plan or has been lax about revisiting and revising an existing plan, this should be a top priority.

Although the scope of your plan will be specific to the size and nature of your organization, basic principles apply to most. For example, you should set objectives for several

time periods, such as one year, five years and 10 years out. And strive to make each goal SMART — Specific, Measurable, Attainable, Realistic and Timely. (See “How SMART are your goals?” on page 3.)

**For-profit businesses use budgets to support strategic priorities, putting greater resources behind higher priority projects.**

Pay particular attention to each strategic goal's return on investment. For example, consider the resources required to implement a new contact database relative to the time and money you'll save in the future. Working through the financial implications of ideas can help your nonprofit avoid the kind of initiatives that sound good in theory but are unlikely to provide returns — financial, social or otherwise — over the long term.

## SPEND DIFFERENTLY

You probably already develop an annual budget, but how closely does it follow your strategic plan? For-profit businesses use budgets to support strategic priorities, putting greater resources behind higher priority projects.

Businesses also routinely carry debt on their balance sheets in the belief that it takes money to make money. Nonprofits, by contrast, typically do everything in their power to avoid operating deficits. Unfortunately, it's possible to operate so lean that you no longer meet your mission. And although bare-bones budgets



are unavoidable in times of economic hardship, as the current economy improves, consider putting some muscle behind your more promising initiatives.

Applying for a loan or even creating a for-profit subsidiary (see "Subsidiaries can provide a more reliable income source" on page 5) could provide you with the funds to grow. Building up your endowment also will help provide the discretionary cash essential to pursue strategic opportunities in the future.

### PAY FOR EXPERIENCE

Most for-profit companies budget for experienced leadership. Although nonprofits typically can't pay their executives as much as businesses do, they can ensure compensation is competitive relative to nonprofits of a similar size and mission.

Paying for experience is particularly critical when you're embarking on major fundraising campaigns or looking to expand your program outreach. You may even want to consider candidates from the for-profit world, who might bring greater marketing and financial management expertise and new ideas to the table.

Also ensure that you've planned for management succession. Successful companies never put all their eggs in one basket — or, in this case, one executive — and you shouldn't either.

### PROMOTE TRANSPARENCY

Changes to Form 990 have forced many nonprofits to disclose more about their financials, operations and governance. But public companies subject to the Sarbanes-Oxley Act and other regulations are held to much higher standards. So consider going the extra mile to promote transparency.

Post your Form 990 information on your website and submit it to charity watchdog groups. If you don't already, engage an outside expert to perform annual audits, and make your audited financial statements available upon request. Outside audits help assure

stakeholders that your financial data is accurate and that you're following correct accounting practices and internal controls.

### TAKE BABY STEPS

Translating for-profit business practices to your nonprofit won't necessarily be easy, so take baby steps at first. For example, if you're coming up on your annual budget-making process, start thinking about how you'll make it more responsive to your organization's strategic plan. \*

## How SMART are your goals?

Many for-profit companies use SMART principles when setting their strategic goals. Such principles help leaders focus on priorities and create achievable objectives. To be SMART, a goal must be:

- 1. Specific.** Goals should be as clear and detailed as possible. Include names, dates, locations, processes and requirements for completion.
- 2. Measurable.** Clearly identify the outcome you're seeking. For example, if your association needs corporate sponsors, your goal might be "Find at least five sponsors for this year's annual meeting." Simply wanting "some sponsorship" isn't measurable or motivating.
- 3. Attainable.** Set goals that are within your control. Although it would be great if you could raise 50% more in donations this year over last, is it really within the realm of possibility?
- 4. Realistic.** While there's nothing wrong with dreaming big, it pays to be realistic. Focus on initiatives that you're both willing and able to pursue and that you believe your organization can accomplish. But be careful not to lowball your goals and shortchange opportunities.
- 5. Timely.** Building in a time factor is essential to staying on track. Time frames can vary by goal. Perhaps you want to increase membership by 20 each month, or have a new program up and running by the end of the year.

# Advantages of sponsoring another charity

Suppose your nonprofit provides medical services to low-income families. You're approached by a group that wants to serve the same population with periodic reduced-cost dental clinics, and it has already lined up several large donations. The fledgling charity, however, doesn't have 501(c)(3) status, and wants your organization to act as its fiscal sponsor.

Should you do it? Fiscal sponsorships — a kind of legal and financial umbrella — can benefit both established nonprofits and charitable projects that lack 501(c)(3) status. But before agreeing to sponsor a group, be sure you understand how such sponsorships work, as well as how they differ from similar, less-advantageous arrangements.

## PROTECTING DONOR DEDUCTIONS

In a fiscal sponsorship, the 501(c)(3) sponsor is legally responsible for the charitable project. Plus, it acts as employer to the project's paid workers and manages all of its funds. Donations and grants are made directly to the fiscal sponsor, thus qualifying their donors for a charitable deduction.

**Mutually agree on start and termination dates and decide which group will make decisions about what.**

Although they may seem similar, fiscal sponsorships are different from fiscal *agencies*. In a fiscal agency arrangement, the 501(c)(3) organization is merely the project's conduit. The conduit accepts the donations and then



transmits them to the intended recipients. The IRS considers the donations to be made from the donors directly to the intended recipients, which means the donors don't qualify for a charitable deduction.

## EVERYONE WINS

It's easy to see why small charitable projects seek fiscal sponsorships. Such relationships can provide much-needed infrastructure and fiscal management to a project. By making it possible to receive charitable donations, sponsorships can make more funds available. Plus, associating with an established charity can enhance the project's credibility.

These arrangements benefit sponsors, too. A sponsorship can provide greater exposure for the 501(c)(3) organization, possibly resulting in new donors for established programs. When you choose a project that shares your

mission and basic objectives, it can enhance your own program offerings with minimal monetary outlay. Although it isn't intended to be a source of income, nonprofits often charge a nominal fee for the sponsorship to offset their overhead costs.

### MAKING ARRANGEMENTS

Projects that can best benefit from a fiscal sponsorship generally include those that are:

- ◆ Too small to have staff or much infrastructure,
- ◆ Temporary or periodic,
- ◆ Waiting to secure 501(c)(3) status, but that want to operate sooner, or
- ◆ Based outside the United States and need a U.S. nonprofit to receive donations on its behalf.

When you find a good candidate, make sure you thoroughly discuss each partner's

expectations and roles. Mutually agree on start and termination dates and decide which group will make decisions about what. Because nothing causes conflict like money issues, be sure to decide on the sponsorship charge (up to 10% is typical), how disbursements will be handled and who will handle audit and reporting requirements.

Both parties must understand the key responsibilities in the relationship. First and foremost, the fiscal sponsor is responsible because the project and its sponsoring nonprofit are legally one entity.

### MITIGATING RISK

Keep in mind that any fiscal sponsorship involves some risk to your organization's finances and reputation. So it's important to discuss your plans with your legal and financial advisors before entering into one of these arrangements. \*

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## Subsidiaries can provide a more reliable income source

*T*raditional sources of income, including government grants and donor support, have diminished or even dried up in recent years. As a result, many nonprofits are faced with the challenge of finding new funding sources. Tax-exempt entities, of course, are subject to regulations that may limit their ability to generate certain types of income. But they can create for-profit subsidiaries that do.

A for-profit subsidiary can help you achieve several objectives, including generating revenue through new business activities, reducing taxable unrelated business income, limiting legal liability and preserving your tax-exempt status.

### LEGITIMATE REASONS

Nonprofits must have a legitimate reason for forming a for-profit subsidiary. Fortunately, "legitimate" can be broadly defined.

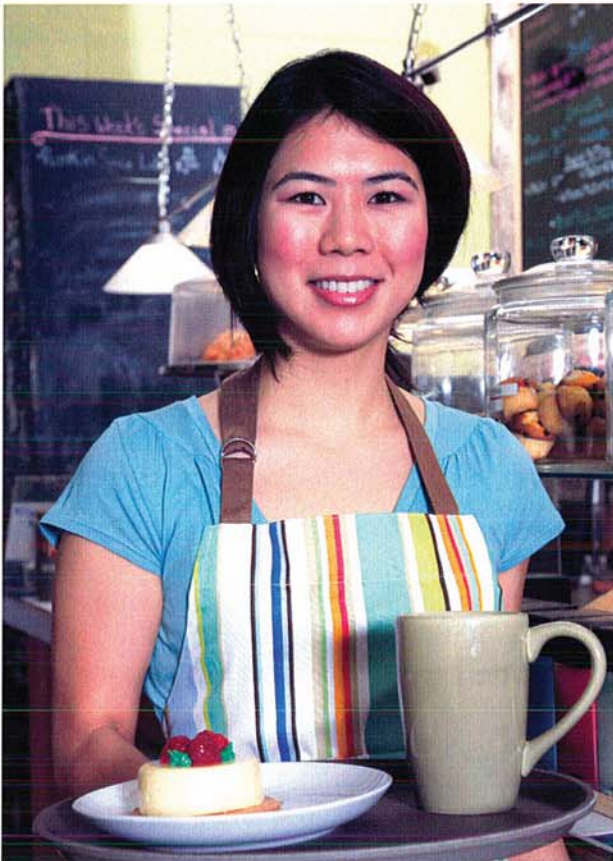
You may create a for-profit subsidiary for the sole reason of raising money to support your nonprofit — whether surpluses are used for budget shortfalls, emergencies or new programs. For example, your historical museum may open an adjacent restaurant. After taxes and operating expenses, you may use surpluses from the restaurant for your nonprofit. Be careful, however, not to distribute

any of your subsidiary's profit to board members or employees. That's *private inurement*, and it's illegal.

### UBIT WORRIES

Another excellent reason to form a for-profit subsidiary is if your nonprofit is subject to the unrelated business income tax (UBIT). This is particularly important if you're at risk of losing your exempt status because the IRS considers your gross revenue, net income or staff time devoted to unrelated business activities as too "substantial."

Many charities with income-generating real estate holdings form subsidiaries for this reason. If, for example, a donor has given you a piece of commercial real estate and you want to develop the property and rent it to retail businesses, a separate for-profit entity is recommended. You'll owe corporate taxes on the subsidiary's net income, but can use the after-tax profits for your nonprofit's activities



without fear of losing your exempt status or paying UBIT.

### OTHER MOTIVATIONS

You also may be motivated by legal concerns. If your nonprofit owns real estate or other significant assets or offers services unrelated to your mission, a separate entity can insulate you from liability risks. This includes lawsuits alleging negligence and accidental injury that could prove financially devastating to your nonprofit.

**Your museum may open an adjacent restaurant. After taxes and operating expenses, you may use surpluses from the restaurant for your nonprofit.**

And if you run unique programs or initiatives with different management and staff requirements, a subsidiary can help prevent these sideline activities from overwhelming your nonprofit work. For example, if a hospital has a primary mission of patient care, it should consider establishing a subsidiary to develop and market contracts with hospital vendors.

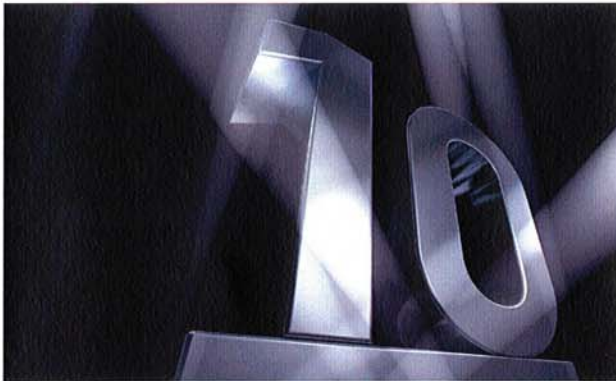
Finally, a for-profit subsidiary may provide your organization with funding opportunities that were previously inaccessible. For example, a subsidiary is generally in a better position to obtain bank loans and private investor money than a nonprofit.

### TAKING THE LEAP

The decision to form a for-profit subsidiary is a serious one because it carries many potential financial and legal consequences. You and your board must consider it carefully, discuss it with your advisors, and prepare for the additional staff and other resources that will be required to get it off the ground. \*

# 10 tips for keeping volunteers

It's easy to take your volunteers for granted — until they quit. Now, more than ever, short-staffed nonprofits rely on volunteer labor to pick up the slack. To help ensure you're doing everything you can to engage and retain unpaid workers for the long term, consider the following 10 tips:



- 1. Build a program.** Even small nonprofits can benefit from formalizing their volunteer program. Start by assigning a paid employee as a part- or full-time volunteer coordinator and developing an orientation and training program.
- 2. Create a “career” path.** Ask volunteers to set goals related to completing projects, mastering certain responsibilities or working a specific number of hours. Reward them by recognizing their achievements publicly and providing them with more challenging assignments.
- 3. Use volunteers’ talents.** Give volunteers tasks that will tap into their experience and skills. Be careful, however, that you don't automatically assume a computer programmer wants to spend his or her volunteer time solving your organization's technology problems. Some volunteers are anxious to acquire new skills, so be sure to ask.
- 4. Assign work that counts.** Volunteers want to know they're making a difference and doing work that matters. Although some menial tasks will inevitably fall to volunteers, articulate how *every* activity contributes to your nonprofit's success — including answering phones or cleaning animal cages.
- 5. Consider convenience.** Unlike paid employees, volunteers don't have to show up for work. So be prepared to accommodate their schedules — particularly if they work full-time or have young families — and try to be flexible when they need to cancel at the last minute.
- 6. Make it social.** Many volunteers are motivated by the opportunity to meet like-minded people. Introduce your volunteers to one another and schedule periodic group get-togethers on- and off-site.
- 7. Communicate.** Although you aren't necessarily going to share your budget woes or operational challenges with volunteers, it's still important to keep them in the loop. If, for example, you're planning to discontinue a program that's heavily staffed by volunteers, let them know as soon as possible.
- 8. Ask their opinions.** Even volunteers who have been with you for a short time will likely have suggestions about how your nonprofit can do things faster, cheaper or better. So, regularly solicit feedback, listen carefully and act on promising ideas.
- 9. Adapt to changing needs.** If you can't find people interested in your current volunteer program, change it. For example, younger volunteers may welcome the opportunity to volunteer via computer, updating your website or writing press releases. Parents may be interested in weekend activities that include children.
- 10. Say “thank you.”** You simply can't thank your volunteers enough, so let them know how much you appreciate them at every opportunity. In addition, send occasional thank you cards, take them to lunch or even hold a volunteer appreciation day. \*



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## FMA and MBAF ERE Host Annual Non-Profit Conference

Fiscal Management Associates LLC (FMA) and ERE LLC recently hosted its annual non-profit program at the Baruch College's Vertical Campus in New York. Titled *We are Worth it! Framing the Case for Full Cost of Programming*, the event marked the fifth year the organizations have partnered to host the conference exclusively for FMA and MBAF ERE past and present clients, close associates and FMA Institute members.

More than 150 non-profit industry professionals, including company CFO's, Executive Directors and Directors of Development attended the conference to learn about the importance of evaluating the full cost of programming and its relationship to setting effective fundraising goals. Hilda H. Polanco, CPA, FMA's Managing Director and Marc Taub, CPA, principal and head of MBAF ERE's Non-Profit Group, joined Gordon Campbell, president and CEO of United Way of New York City, the keynote speaker of the conference.

"The non-profit field is quickly changing, and we wanted to provide our clients and associates with access to industry leaders who can help them strengthen their organizations' business practices," said Taub. "Our partnership with FMA provides a valuable resource to our non-profit clients, and we are pleased to have been able to offer this program."

The conference featured an extensive panel of distinguished experts in the non-profit field, including Addie Gutttag, Executive and Development Consultant; Mary Jo Mullan, Consultant to Atlantic Philanthropies, Former VP for Programs at F.B. Heron Foundation; Alex Neuhoff, Partner, The Bridgespan Group; and Stephanie Palmer, Executive Director, New York City Mission Society addressed attendees and provided their insight on the issue at hand. Gretchen Dykstra, Senior Advisor to FMA, Former Commissioner of the NYC Department of Consumer Affairs, served as moderator.

"This year's program focused on a topic that we feel is key for non-profits to survive in this economy. We showed attendees how to take a clear look at what the full cost of programming is for an organization, and how this approach is necessary in order to develop goals to not only sustain a non-profit, but also to help it flourish," said Polanco. "Through our work with MBAF EFE, we can continue to provide our clients with the guidance they need to achieve continued success."

*To learn more about FMA please visit our website [www.fmaonline.net](http://www.fmaonline.net) or contact us at 646.403.8040.*

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