

The C&P Advisors companies are happy to bring our latest newsletter to you. If you have questions on any of these topics, contact your C&P Advisor or the individuals listed.

June 2010

Not-for-Profit News

Managing Cash Flow to Support Your Mission

Not-for-profit organizations struggle with juggling many priorities every day. A significant priority, especially in these difficult economic times, is managing cash flow. Not being able to manage cash effectively can have devastating effects. Fulfilling your organization's mission is greatly impacted by how well you manage your cash. There are several general and very effective tools that your organization can use to help manage cash effectively to better support your mission. We favor the use of a cash flow forecast.

The cash flow forecast is essentially a budget of anticipated cash receipts and disbursements. It can be done in various intervals, such as weekly, monthly, quarterly, and/or annually. If your organization is in a tight cash position, it is often wise to use a 13-week cash flow forecast and monitor the actual to forecasted results on a weekly basis. This affords the organization early warning if cash flows are not panning out the way they were anticipated, and the organization can act accordingly to mitigate cash flow concerns.

Most organizations have a pretty good sense of how much cash is going to be spent in a given week, month, etc. Many not-for-profit organizations have costs that are relatively fixed in nature, such as payroll, occupancy, and supplies. As such, forecasting these cash flows is relatively simple. Unfortunately, the organization is often limited as to the flexibility to delay payment of these costs. Thus, the cash has to be available on specific dates to make these payments.

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Energy Deregulation: Are you aware that you may be able to achieve significant savings on your electricity over what you are currently paying even if you are with a buying group? Contact Mike Klein to learn more.

HIRE Act Payroll Tax Holiday

One provision of the recently signed Hiring Incentives to Restore Employment Act (HIRE) that may be of interest to tax exempt organizations is the payroll tax holiday for hiring the unemployed. The new tax provision exempts employers from paying their share of the 6.2% Social Security tax for wages paid between March 19, 2010 and December 31, 2010 to the newly hired. The result is an immediate tax savings as well as improved cash flows. There are several hurdles to overcome in order to qualify for this exemption:

- First, the worker must begin employment with your organization after February 3, 2010 and before January 1, 2011.
- Second, the new employee must certify by signing newly issued Form W-11 that they have not worked more than 40 hours in the 60 days prior to starting employment with your organization.
- Third, the position for the new employee cannot be a replacement for another employee unless the former employee left voluntarily or for cause.
- And lastly, the new employee cannot be related to the employer.

Please feel free to contact David Reape at Ciuni and Panichi, Inc. for further details.



Mike Klein, CPA, MBA
Partner

Managing Cash Flow (continued)

Being able to track cash receipts is often a bit trickier. While certain sources of revenue are relatively predictable in terms of the payment period after the date of invoicing, other sources are not so predictable, such as the timing of donations. Let's first look at earned revenues and the cash flows resulting from them. **Many factors** outside of the average time it takes to get payment from the customer can impact your cash flow timing. How long does it take you to invoice? Do you have turnover in the billing department that causes you to fall behind on billing? Are there major shifts in the number of clients or customers using your services and/or the amount of service that they are using? These factors outside the customers' timeliness of payment can all impact your cash flow.

Unearned revenues, such as donations and certain grants, can be much **more difficult to predict** in terms of timing of cash receipts. The organization is not entirely in control of the process. Sure, your development department can work to generate cash flows according to a budget, but ultimately, the donors, foundations, and governmental agencies are in control of whether they make a donation or grant, the amount of such award, and the timing. Past experience can offer insights into trends, especially around individual and corporate giving. These tend to be more reliable the greater the cash flow forecast interval (e.g., easier to predict by quarter than by month or week).

Good cash management requires that you effectively manage the aspects of the cash receipts and disbursements cycles that are within your control. For instance, your ability to match payment terms with the terms of your significant revenue sources helps **minimize the "cash gap"** (difference in timing of cash receipts vs. disbursements). If you average the payment within 15 days of receipt of goods or services but get paid in 30 days for the services that you deliver, you have to finance 15 days of cash flow. This is the cash gap and there are costs (e.g., interest) to such financing. Thus, minimizing the cash gap is of great importance.

You need to ensure that you are **timely in billing** for your services and that service providers are **timely in reporting** the services that they delivered and completing the required documentation in order for you to bill. Require your providers to report daily or weekly so that bills can be generated. Allowing them to stretch this time period out puts a strain on your organization's resources and may result in lost billings for time not reported.

Work your accounts receivable. Make sure to stay up to-date on collection calls. Occasionally, those who make pledges or contributions forget their payment schedules and a quick call could help increase collectability and cash flow. A simple pledge reminder sent in the mail could also benefit with receiving cash from unpaid pledges. Watch that you are not continuing to provide services to customers that are severely delinquent in payment. It is understood that you have to balance mission with financial consideration; however, often the thought that services will be discontinued is enough to prompt payment.

Get a **line of credit** set up and in place before you need it. This way, if collections or contributions are down, the line of credit can act as a backup in the short term until the economy rebounds and cash flow increases. Also, look into purchase groups for discounts or sales on supplies. Any type of discounts made available for items you use will be beneficial in the long term.

Track key ratios, such as days in receivables, days in payables, receivables to revenue, etc., and be alert for negative trends. Investigate deteriorating ratios quickly as they are often a first alert to a systematic problem, often one that can be remedied relatively easily once identified.

Don't forget to consider where an organization is heading in the future. This can help when preparing a cash flow forecast for the upcoming periods/years. Is your organization planning to expand or contract operations? Are you planning on implementing new software in the current year? With any key decisions that those charged with governance are planning for the future, think of the cash implications. This will greatly reduce any surprises that may arise after changes are made.

Contact Mike Klein for more information on how Ciuni and Panichi, Inc. can assist you with cash flow management.



Governance: As Seen by the IRS

Since the release of the new Form 990 back in late 2008, the Internal Revenue Service has made it very clear during speeches and through written guidance that governance issues of exempt organizations are a high priority for them and an area they expect to be actively involved with for the foreseeable future. The new form contains a whole page of new questions relating to what the IRS considers to be “Best Practices” for exempt organizations. There are additional governance and management type questions scattered throughout the balance of the form and schedules. The IRS makes it very clear they feel that good governance begins with, and is the ultimate responsibility of, the exempt organization’s board of directors.

After the IRS gathers the data, it is presumed they will use the information to develop additional questions and provide further guidance on promoting good governance.

For the time being, there are several governance areas organizations should review to make sure they are within current IRS guidelines. For many organizations we have been working with over the past year, this has resulted in many thorough and thoughtful reviews by management of the organization’s policies and procedures.

Key areas to focus on include:

- Conflict of Interest Policy
- Document Retention and Destruction Policy
- Whistleblower Policy

In addition, consideration should be given to creating a committee or task force of the board and management to annually review the Form 990 before filing.

Once the immediate issue of how to answer the governance questions on the new form are resolved, the next step should be to make sure all members of your organization are moving in the same direction. This can be accomplished by making sure your organization has a clearly stated mission statement explaining the purpose and guiding work of your organization. Care should also be given to make sure your current mission statement is still consistent with the stated mission of your original organizational documents.

The IRS recently released the 2009 version of Form 990 which includes a number of clarifications, as well as several new questions.

The Not-for-Profit Group at Ciuni and Panichi, Inc. is available to help guide your organization through the new filing and disclosure requirements.



403(b) Plan Changes

Does your organization have a 403(b) plan that is required to file a Form 5500? Did you know that the 2009 form needs to be electronically signed and filed? Also did you know information required to be reported on the Form 5500 has been greatly expanded for 2009? If you answered yes to the first question and no to either of the last two questions please look for an upcoming Ciuni & Panichi, Inc. hosted seminar to get your answers.

Healthcare Reform

On March 30, 2010, President Obama signed the Health Care and Education Reconciliation Act of 2010 into law which amended the Patient Protection and Affordable Care Act of 2010 that was signed into law on March 23, 2010. The scope of the healthcare reform bill is vast, the details still unclear, and the provisions effective over a number of years, but the effects will have a significant impact.

Ciuni & Panichi, Inc. is monitoring all developments as we know of the bill's importance to your organization. We will be providing more details relevant to the not-for-profit sector in the near future. Any further questions and request for additional information should be addressed to The Not-for-Profit Group at Ciuni & Panichi, Inc.

Cash Flow Basics:

- Create a C/F forecast
- Monitor results vs. forecast
- Track key ratios
- Timely reporting = timely billing
- Work your accounts receivable
- Manage unearned revenue
- Minimize the "cash gap"
- Get a line of credit
- Consider the future

Timeline of healthcare reform provision effective dates (selective provisions):

2010

- Tax credit – smaller employer (available to not-for-profits at a reduced percentage).
- Dependent adult child coverage.
- New simple cafeteria plans for small businesses.
- Increased penalty for non-qualifying distributions from HSAs and MSAs (penalty 20%).

2011

- FSAs/HSAs – only covers doctor prescribed medicines
- Value of health benefits on W-2.

2013

- Additional Hospital Insurance Tax for high wage workers (.09%).
- Surtax on unearned income (3.8% on net investment income).
- 10% AGI floor on itemized medical deductions.
- \$2,500 cap on FSAs.

2014

- Penalty for remaining uninsured.
- Large employer mandate "Play-or-Pay".

2018

- 40% excise tax on high-cost insurance.

For more information on the articles in this issue, please contact:

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