

# NonProfit Financial Managers

A Resource for the areas of Finance, IT, Human Resources, and Office/Facilities Management

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For information, go to [npfm.org](http://npfm.org), or contact Mitzi Fennel at 617-547-1063 x235 or Jessica Zander at 617-850-1752.

## **Mark Your Calendars**

All of our meetings take place on the **last Tuesday** of each month. No pre-registration required. Upcoming dates:

- ◆ **May 26: Where's the Dirty Laundry**
- ◆ **June 30: Changes in the Role of the CFO during Hard Economic Times**

## **NPFM Membership Information**

The annual membership fee of \$100 covers monthly mailings and other operating expenses. The membership period is from September to August. A part-year membership for \$60 is offered for those joining after January 1<sup>st</sup>, which covers membership through August. Full-time students are welcome to join at any time without paying a fee.

In addition to attendance at monthly meetings, members receive a monthly newsletter and access to the NPFM e-mail forum. Lunch is provided for all attendees at meetings. There is a \$12 meeting fee for non-members, and since membership is by organization, there is no limit of individuals from any one organization who may attend the meetings.

R.S.V.P.s for the meetings are not required.

For renewals or new membership fees, please make your check out to:

NonProfit Financial Managers  
C/O Child Care Resource Center  
130 Bishop Allen Drive  
Cambridge, MA 02139

Contact Mitzi Fennel at 617-547-1063, x235 for more information.

## **The Next Meeting**

**Topic: Where's the Dirty Laundry**

**Date: Tuesday, May 26**

**Location: United South End Settlements  
566 Columbus Ave., Boston**

**Time: 12:00 PM – 1:30 PM**

Where's the Dirty Laundry? How Auditors Assess Financial Exposure (and how you could, too)

You reconcile cash. You design internal controls. You train staff. You have written financial procedures. You prepare for the audit. You try to track restricted funds. Where do you look to figure out what you may have missed?

Your audit team thinks about these issues when they plan the audit. Jack Finning, founding partner of Alexander, Aronson, and Finning, will take us into the auditor's mind in the planning phase of the audit. We will discuss the ways we can minimize our exposure during the year and so we can identify areas in our own operations where reconciliation would minimize surprises. Jack provides accounting and business consulting services to AAF's small-to-medium sized closely held business clients, as well as non-profit clients. Jack is a member of the American Institute of Certified Public Accountants (AICPA) and Massachusetts Society of Certified Public Accountants (MSCPA). For the former, he is an elected member of the governing council. For the latter, he is Past President, a member of the Board of Directors, and serves on its Legislative Awareness and Audit Committees.

## **Recap of April Meeting**

Kevin Hepner, President and CEO of United South End Settlements, presented on "Understanding Leading Indicators," describing how one can use leading indicators in nonprofit fi-

nancial management. Kevin is a CPA with extensive experience managing for-profit and non-profit organizations, consulting, and teaching financial management. He is also the founder of the NonProfit Financial Managers group.

Kevin described a leading indicator as the measurement of a specific activity that can indicate a future outcome. Leading indicators are most commonly used in government and financial industry forecasting. In the financial/government policy world the US uses the following 10 leading economic indicators:

- Average number of initial applications for unemployment insurance
- Number of manufacturers' new orders for consumer goods and materials
- Speed of delivery of new merchandise to vendors from suppliers
- Amount of new orders for capital goods unrelated to defense
- Amount of new building permits for residential buildings
- The S&P 500
- Inflation-adjusted Money supply (M2)
- Spread between long and short interest rates (the Yield curve)
- Consumer sentiment
- Average weekly hours worked by manufacturing workers

These examples can be used to predict outcomes but not affect the outcome. Take the example of a school report card. When the final grade is given it cannot be affected. When several periods are put together you can predict the year-end grade, but not affect it. However, a number of factors make up the final grade: quizzes, projects, attendance, classroom participation, etc. These are leading indicators to the outcome and if understood during the term can be corrected through coaching, tutoring, etc., to have a profound impact on the final grade. Kevin described how nonprofit organizations can use leading indicators. External indicators include Economic Indicators, which can inform fundraising expectations. Contributions tend to "lag" the market and many times the decline in giving happens when the economy seems to be improving because of foundation spending poli-

cies. Organizations can react to external indicators but are unable to affect them.

Internal Indicators can be defined through an understanding of operations. In order to define your leading indicators you need to understand how participants flow through the system to generate fee for service indicators. Flowcharting can be helpful to gain understanding of the all steps in the intake process. In flowcharting the revenue generation process you should ask these questions:

- Government funding – what is the lead time?
- What are key indicators of increase/decrease
- Foundation funding – what is the lead time?
- What are key indicators of increase/decrease
- For Cost indicators, identify the cost drivers for major cost items.

To better explain the process, Kevin demonstrated an example from The Manville School, a therapeutic day school for children (ages 5-16) who experience emotional, neurological, or learning difficulties. Revenue is tuition from sending schools and the rate is set by the state and paid by school districts. Annual tuition is approximately \$65,000 per student, an amount that is significant enough to make it critical for Manville to predict tuition revenues as closely as possible. Kevin showed the group how Manville kept enrollment records by month, which showed trend information. Kevin then demonstrated how Manville could look at activities, such as the number of formal inquiries that would predict enrollments in future months. He then showed how Manville was able to also track informal inquiries that occurred even earlier in the process. Assumptions could be made about how many inquiries would result in actual enrollments and then be used to evaluate the reasonableness of budget projections.

Kevin concluded with a group discussion of what leading indicators might be used in other organizations. He acknowledged that leading indicators are easiest to use for fee for service income

and suggested one start with the “low hanging fruit.”

### ***Job Openings...***

The NPFM group has a section on their website for job postings. Check out our website at [www.npfm.org](http://www.npfm.org) for a complete list of jobs. Contact David Richardson at [dr44@verizon.net](mailto:dr44@verizon.net) with questions or postings.

### ***NPFM E-mail Forum***

One of the benefits of membership in NPFM is a subscription to our e-mail listserv. We encourage members to post questions, announcements and new developments in finance and administration. All new members who provide e-mail addresses are automatically subscribed. To post messages send to [npfm@topica.com](mailto:npfm@topica.com)

### ***NPFM Steering Committee***

The Steering Committee consists of several members who are responsible for the meeting topics, speakers, and other details surrounding the group. If you are interested in joining the steering committee, or in submitting ideas for future sessions, please contact any of the existing members, by e-mail or in person at a meeting.