

## Obligation and Opportunity Evaluating Your Executive Director

**Every self-assessment can produce** improvements for your nonprofit organization. One key area to assess is your executive director's performance.

Six years ago, a poll of nonprofit executives showed that fewer than half had ever encountered a performance review. Today, many organizations schedule regular reviews for executive directors and often require board members to participate.

A full review of a past period will help your nonprofit plan and execute the coming year's projects. A well-organized review should:

- Establish clear and common understandings about what the board expects of the director. A common voice can head off mixed signals.
- Help everyone understand successes and shortfalls.
- Set creative parameters defining how much freedom the executive director has to innovate and take risks.

### When and Who

Boards of larger organizations routinely conduct annual executive reviews. But that pace can burden a smaller group, and one with a stable leadership may find less frequent reviews are adequate.

Even a small board, with busy and far-flung members, shouldn't prepare and manage the review. Instead, rely on a smaller committee of two or three with adequate staff resources. The dates of a scheduled review

should be visible to board members and the executive director far in advance.

### Define and Gather Information

If you define what you plan to review specifically and early, the entire process will be smoother and more productive. Sometimes that's easy and proceeds from the executive director's job description. But sometimes a new job description is called

for, such as when a review notes changes in the actual role or creates new board expectations for it.

However you compile your "what to review" list, it will point to the information the board needs. Some data will be specific to the nonprofit's nature and mission, but any objective review requires concrete measurable facts as well as recollections and opinions.

In gathering this data, the core committee will gain an understanding of the director's challenges. This can help the entire board grasp them and better assess performance.

### What Makes Reviews Difficult?

Your nonprofit's collegial culture, normally an advantage, can obstruct



an objective review. Few people are comfortable criticizing the work of another, particularly when the executive on the receiving end is making sacrifices in pay and overwork to serve a not-for-profit cause.

Also, remember that most board members have little visibility into an executive director's daily work. And while some probably have experience with business reviews, this is different. The board is a collective organization that conducts and approves its review jointly.

But if everybody owns the review process, this can also mean nobody owns it. It takes an engaged board chair and a focused managing committee to prevent this, primarily by

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# Helpful Tips for Collecting Pledged Donations

**A** pledge to a nonprofit is generosity without cash up front, making it a popular option for donors. The organization benefits too, because an unconditional pledge becomes an asset the moment the donor agrees to give it.

Pledged receivables enable robust planning and spending. But they may already be budgeted before the donations are actually made. A collection shortfall could then significantly disrupt your organization's work.

## Why Aren't Pledges Fulfilled?

Some donor defaults are beyond your nonprofit's control, like serious illness or a sudden loss of income. So too is a decision to simply not donate.

But most pledges go unfulfilled for less dramatic reasons. Donors forget dates and numbers, lose envelopes, miss e-mails or can't navigate your online payment system. Some harbor second thoughts about the amount pledged, while others just procrastinate. And these hurdles often overlap.

## Set Terms at the Outset

A pledge is a contract: a promise to pay an amount by a date, sometimes in increments. Help your team understand this in soliciting pledges and learn to communicate it to donors without being crass.

For smaller pledges, a simple signed form with a due date is usually adequate. But for larger promises, always spell out the terms in a detailed contract with help from your legal advisers.

A signed contract can become critical. Last year Duke University sued a donor's estate for \$10 million in pledges on which the college was already relying. State law and the signed pledge put Duke in a strong position — although in the end it forgave the pledge to preserve its relationship with the donor's family.

## Communicate Thoughtfully

Before the pledge drive begins, decide how you'll communicate after a donor

commits. Then create a schedule to manage communication.

A quick follow-up — such as a grateful, positive note about the pledge drive conveying enthusiasm about the coming year — should be mandatory. Some donors fulfill their entire pledges early after such a prompt.

Unless the due date is far off, send a friendly reminder a week or two before. If a week passes after the date with no donation or message, send another note to be sure the check wasn't lost in the mail.

After another month, one of your best collectors should call the donor to talk about the pledge, including discussing extended payment dates. In further communications, a member of the board can take on the task with a call or a lunch invitation — especially if the pledge is a large one.

## Better Collection Tactics

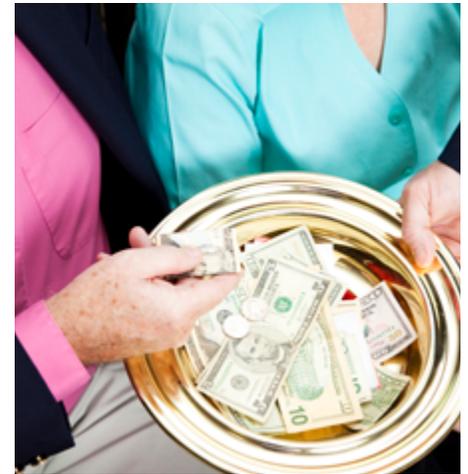
Here are three easy ways to improve pledge collection:

1. *Empathize.* Unlike your staff, donors aren't focused on your pledge drive. Assume every pledge represents a sincere desire to help and then consider your donors' busy lives, looking for ways to help them help you.
2. *Make payment easy.* Don't be the nonprofit that sends a pledge letter without a return envelope, or an e-mail without a payment link. Teach your staff to critique its own communications with a donor's eye.
3. *Be prepared with alternatives.* For a devoted donor who pledges and pays every year, but has yet to pay on time, would recurring payments be better? You'll forego early recognition of an asset, but reliable monthly payments via automatic funds transfers are valuable too.

Sometimes when the stakes are high, a nonprofit board decides to demand payment of a defaulted pledge, or even sue for it. Your board may de-

cide to take neither course, but as a good steward of the organization's fiscal health, you should at least consider them.

*Our nonprofit team can help you make the most of your donors' desire to give. Call us to talk in more detail.*



## Recognizing Donations as Assets

Pledges and donations become assets in the following circumstances:

*Upon receipt of the actual donation:*

- Direct donation of cash or assets.
- Recurring payments.

*Upon receipt of a pledge to pay:*

- Unconditional pledges, or pledges to donate without conditions, can be recognized as revenue when the donor makes the pledge.

*Depending on conditions attached to a pledge:*

- Conditional pledges, or pledges to donate once a specified condition is met (or ends), can be recognized as revenue only after the condition has been substantially met (or ended).

Note that either a conditional or unconditional pledge can restrict how the donation is to be used. However, this does not affect when revenue is recognized.

## The New Nonprofit Liquidity Disclosures

**L**iquidity worries haunt nonprofits,” intoned *CFO Magazine* in a 2009 headline. Not-for-profit groups were contracting and few were sitting on cash.

This lack of liquidity worsened nonprofits’ financial straits during the recession and afterward. Hard times, in turn, made liquidity harder to achieve. Most nonprofits struggled and some closed shop, unable to cover payrolls, mortgage payments or light bills.

These red flags concerned Washington and Wall Street too. Charitable nonprofits, in particular, become more important in perilous economic times. Meanwhile, nonprofits themselves hold large investments in the U.S. economy.

### Financial Reforms

Stakeholders in government and the nonprofit sector initiated reforms to address liquidity and other concerns. The most recent changes are presented in the latest update from the Financial Accounting Standards Board (FASB ASU 2016-14). These changes require additional disclosures about liquidity and available resources.

The information in these disclosures is intended to:

- Calculate what resources are currently available for next year’s operations.
- Explain how your organization manages its liquidity.

The FASB’s update requires “enhanced” information about your organization’s liquidity and timely access to resources. Two kinds of information are required; together, they can indicate the nonprofit’s ability to meet its cash needs for all the next year’s general expenditures.

### What Demonstrates Liquidity?

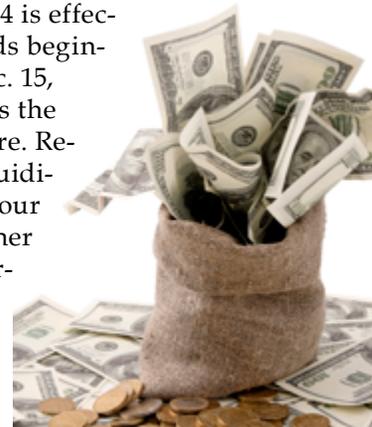
*Quantitative information* is included on the statement of financial position or in the notes. It calculates the nonprofit’s liquid resources on January 1 available for next year’s general expenditures.

It does so by reducing year-end liquid resources to account for limitations imposed by trusts, donors or subject-to-appropriation rules. (Appropriation, for most nonprofits, translates to board approval.)

*Qualitative information* is presented in notes to the financial statements. It can explain the nature of the quantitative figures and how the nonprofit expects to meet its cash needs for the next year. In it the organization describes how it manages its available resources and liquidity risk by explaining its strategy, policies on liquid reserves and basis for estimating liquidity over time.

The FASB standard permits smaller and less-complex nonprofits to provide both kinds of information in paragraph form.

ASU 2016-14 is effective for periods beginning after Dec. 15, 2017, so now is the time to prepare. Review your liquidity risks and your plan, and gather ideas for information to present and support your case.



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communicating clearly with the entire board early and often.

### Tips for Success

The following actions will strengthen your board’s executive review. Allow adequate time for these, especially if it has been awhile since your board’s last executive director review or this is your very first one.

- *Be transparent.* Only your director and board will see the results, but your full staff should understand the goals, process and timing of the review. This will generate more thoughtful input. As a bonus, the process itself can clarify mission, vision and roles throughout your organization.

- *Ask your staff the right questions.* Don’t ask them to evaluate the executive director’s performance — instead, find out how their work is going. Be specific: In a paid staff member’s or volunteer’s direct experience, what went well and what didn’t? Why? What support could have helped? What got in the way?

The answers will help the board understand conditions on the ground, including morale, which will help

them assess the executive’s performance. Also vital are staff opinions on how the organization is fulfilling its mission.

- *Involve the director closely.* Your executive can often bring specific insights — e.g., what really caused the drop in midlevel donations? — and practical help in setting new goals. When it’s appropriate, include the director in the review’s strategic discussions, too. Such cooperation can foster relationships and start the year off well.

- *Talk to external stakeholders.* However, don’t mention the executive director or the review. Instead, ask them their feelings about the organization and its mission.

An executive director review has many benefits, including a strengthening of your board itself. These discussions can energize members, enhance relationships among them and solidify their commitment to the organization’s success.

*Our firm has experience with executive reviews. Call us if you’d like to explore the topic in more detail.*

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## How Nonprofits Can Recruit Millennials

**A**bout 100 million people in the U.S. today are considered Millennials, having been born between 1980 and 2000. Here are a few ideas to involve them in your nonprofit's work:

- *Segment the generation.* Millennials generally range from 17 to 37 years old, so don't try to reach them all through the same channels or communicate with them the same way.

- *Offer donation options.* Millennials often want to earmark their donations for a specific aspect of a nonprofit's work, so provide this option. And try specific appeals, such as: "Your \$100 pledge means we can..."

- *Promote volunteering.* This generation tends to be more attracted to nonprofit volunteering than ear-

lier generations. Provide rewarding opportunities today to reap loyalty and generosity tomorrow.

- *Create internships.* Enlist interns in meaningful work, which can include administrative tasks if you link them to the mission. Even if the pay is low, make interns feel valued with recognition, college credit, membership perks and an employment track.

- *Communicate like Millennials do.* Understand which age groups use which social media channels and build an active presence across several platforms to reach the spectrum. Every Millennial you reach on social media can introduce a network of friends and correspondents as well.

- *Look good online.* The oldest Millennials remember screeching modems and flashing graphics. Don't be like that. Put forth a clean, modern, tech-savvy image online.

- *Hold campus events.* There's no better place than college campuses to reach younger Millennials in person and excite them about your organization's activities. College happenings can raise significant funds, too.

In all these areas, focus on the long game. Even the oldest Millennials won't match their elders' financial contributions, and the youngest ones can't come close. But by involving them today at any level, you can begin lifelong relationships that will support the organization and its mission for decades.



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