

Welcome to the Jones & Associates LLC, CPAs June 2017 newsletter! Feel free to pass it along...

The Liability of Smallness



In 1987 Howard Aldrich and Ellen Auster coined the term “the liability of smallness” which indicates that small organizations have a propensity to fail. This smallness-related vulnerability results from problems in raising capital, recruiting and training a workforce, and handling regulatory compliance. Then, as organizations grow, they increasingly emphasize predictability and control, demonstrating greater reliability and accountability. This growth period is often fraught with blame and shame, and sometimes the loss of key movers and shakers, as smallness burns out leaders.

Since their article came out in 1987, more research has been done on the “liability of smallness”, which seems to conclude that those organizations that start out well capitalized are more likely to succeed. There is a point of critical mass that attracts more financial and talent resources.

There is good news, though. Smaller organizations tend to have more personality, less bureaucracy and are more “edgy” and nimble. They can also attract vast networks of passionate volunteers due to their compelling missions.

Of course, most smaller organizations do not want to be small forever. They have plans for growth and expansion of mission reach. It is best, however, to recognize that these are simply phases in any organization’s life – each with its own set of challenges. The point is to take advantage of the opportunities as they present themselves.

Click [HERE](#) to read the full original research article.

Q&A with J&A

We are asked many questions related to financial best practices for nonprofit organizations. This month we are adding a segment to our newsletter highlighting a few:



Q: Is it common practice to adjust the budget from time to time throughout the year?

A: There are certainly two camps on this subject. Likely 50% of the organizations we work with will revise the budget at least once during the year. The reason is that you cannot possibly know what an anomaly will be at the beginning of a year and rather than explain it as a variance each month, it might be better to revise the original budget to better plan what is expected the rest of the year.

That said, the budget is generally not changed more than once in a year. That one revision is really a “reset” so that you can better plan the rest of the year.

Q: Are we required to have a Finance Committee AND an Audit Committee?

A: No, it is not required but it is strongly suggested that you do have a separate Audit Committee. In small nonprofit organizations with limited staff, the Finance Committee can take on an important internal control role to help fulfill proper segregation of duties, such as reviewing and approving the Executive Director’s reimbursements and signing off on bank and investment statements. The Audit Committee’s function, in addition to overseeing the annual audit, is to ensure there are adequate

internal controls and to periodically test that those controls are operating effectively. In this way, the Audit Committee is actually testing to ensure the Finance Committee, along with management, is performing their role properly. To avoid possible conflicts of interest, it is strongly recommended to have a separate Audit Committee.

More education coming soon...



As many of you know, the next J&A seminar on internal controls in early June filled within a day of its announcement. Do not be discouraged! We are currently developing more webinars and other more portable education curriculum for small nonprofit staff and board members. Stay tuned for further announcements this summer...

Welcome Adrienne Rathy!



We are pleased to announce that Adrienne Rathy, CPA, has joined the Jones & Associates team. Adrienne brings to us over 4 years of experience in CPA firms, including KPMG in Dallas, TX and has recently moved to Seattle. She is excited to support the nonprofit sector with her skills. Welcome Adrienne!

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Should you have any questions about the content of anything in this newsletter, please contact us.

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