FIRST AMERICAN
EQUIPMENT FINANCE™
NON-PROFIT DIVISION

WHITE PAPER

LEASING HELPS NONPROFITS MAXIMIZE BUDGETS AND ROI

by: Michael Wiedemer, Vice President

Today's economic environment is creating budgeting challenges for many nonprofit organizations. The recent decrease in charitable contributions nationwide and the uncertainty surrounding state budget deficits have forced many nonprofits to take a hard look at projects planned for the next fiscal year.

In the face of these challenges, some organizations are considering canceling or postponing mission-critical long-term projects. However, more and more nonprofits are looking to equipment lease solutions for their capital expenditures. Leasing equipment gives nonprofits the budget flexibility to undertake and manage strategic projects and can help improve return on investment (ROI).

KICK-STARTING CRITICAL PROJECTS

Whether they are planning an office expansion, network infrastructure upgrade, or administrative software implementation, nonprofits face substantial up-front investments in hardware, software, and services when undertaking strategic projects. Many of these projects are critical to the long-term success of the organization, but lack the current-period funding necessary to get them off the ground. Without adequate cash on hand to fund the acquisitions, nonprofits may face the difficult decision to take shortcuts, reduce the investment, or delay implementation.

Since most leasing arrangements provide for 100% project financing with no up-front costs, organizations can acquire the equipment they need with a minimal impact on the current-period budget. Rather than waiting to undertake or cutting back on a project, nonprofits can accelerate project implementation through the strategic use of lease-financing. This enables nonprofits to realize project's benefits sooner and improve return on investment (ROI).

CASE STUDY: Donation Matching

A large 501(c)(3) organization in New York was looking to expand its research capabilities through the acquisition of laboratory equipment. The nonprofit secured a private donation in the amount of $250,000, payable in equal installments over 5 years, to cover the equipment costs.

The nonprofit worked with their leasing partner to structure a fixed-rate lease-financing contract to match the timing of donation installments to the timing of annual lease payments. This enabled the organization to implement the equipment acquisition immediately without hampering its budget or putting financial stability at risk..

CONSERVING CAPITAL

The expression "cash is king" has never been more appropriate than right now. When self-funding equipment acquisitions, a nonprofit's most valuable asset, cash, is converted into depreciating equipment. As early as 1920, John D. Rockefeller foresaw the benefits of financing when he said, "own that which appreciates, rent that which depreciates." Leasing allows nonprofits to take Mr. Rockefeller's advice by structuring the lease contract as a rental agreement in which the nonprofit pays for use of the equipment over 2-5 years.

Because it requires little up-front investment, equipment leasing also enables nonprofits to build a contingency fund to address future uncertainty. Conserving capital in this manner improves the organization's liquidity and provides peace of mind that they can weather unanticipated challenges.

© 2010 First American Commercial Bancorp, Inc.

HEDGE AGAINST INFLATION

An April 2010 article in the *Wall Street Journal* noted that "investors' longer-term inflation expectations are rising." Many financial experts believe that higher inflation rates could negatively impact consumers and organizations in the next 2-5 years.

Unlike bank lines of credit, equipment lease agreements provide fixed-rate financing that does not change as interest rates rise. Once a lease commences, the monthly lease payments are locked for the life of the lease. Because it allows organizations to pay for today's equipment with tomorrow's less valuable dollars, equipment leasing protects nonprofits against escalating prices and interest rates. It also provides nonprofit organizations with assurance that their financial forecasting is reliable and accurate.

MATCHING BENEFITS AND COSTS

Strategic projects are almost always long-term in nature. The benefits extend many years into the future and provide a roadmap for the organization to grow and succeed. Equipment leasing solutions can be customized to transform substantial up-front investments into regular, fixed-rate monthly payments. By evaluating the ROI analysis of the project, leasing firms can craft lease structures that precisely match cash outflows with expected benefits of the project (see an example in "Case Study: Donor Matching"). A properly structured lease will allow the nonprofit to pay for the project's benefits in the time period in which the benefits are realized.

GETTING STARTED

The unique funding streams and cycles in the nonprofit sector require a custom analysis of the organization's situation and requirements in order to structure the best lease contract. A leasing company should take the time to understand the nonprofit's accounting considerations and asset lifecycles before recommending a lease solution. When executed properly, an equipment leasing strategy can enable nonprofits to acquire the equipment they need without breaking the current budget.

ABOUT FIRST AMERICAN EQUIPMENT FINANCE

First American Equipment Finance is an experienced lessor specializing in the nonprofit, healthcare, education, and legal industries. Ranked among the 10 largest independent leasing companies in the U.S., First American provides simple, innovative financing solutions for complex projects. First American specializes in combining products and services from multiple vendors and service providers into a single equipment lease. First American has a long-standing reputation for professionalism and exceptional service among sophisticated borrowers throughout the U.S.

© 2010 First American Commercial Bancorp, Inc.