Lindquist von Husen & Joyce LLP
Certified Public Accountants

NOT FOR PROFIT LIFELINE

Developments in Accounting, Taxation and Management for Tax Exempt Organizations

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Inside the Numbers: Financial Information for the Board

To properly oversee and manage a nonprofit organization, its board members need to receive accurate and timely information about the organization's finances. But which financial information will be most helpful, and how detailed should it be?

There is no single best approach. Much depends on the makeup of the board. In many organizations, not every board member has the necessary financial expertise to decipher complex financial reports. At the same time, informed decision-making and planning require a good understanding of the organization's financial situation.

Determining What's Essential

To help focus the effort, management and the board should determine the specific types of financial information to be reviewed on a monthly or quarterly basis. Among other items, essential information typically would include a comparison of the organization's actual revenues and expenses to prior results and to the budget, with variances noted in both dollars and percentages. A look at longer term trends in key areas, such as total revenues and program expenses, can also be useful for analysis purposes.

Looking at Ratios

The board also may be interested in reviewing key financial ratios. For example, the current ratio is a measure of liquidity (the organization's ability to pay its obligations on time). A ratio of 1:1 or more indicates that as of the measurement date, the organization has enough cash and other assets that can be converted into cash in the next 12 months to cover the liabilities that will come due in the next 12 months.

As for activity measures, it's useful to see how total expenses in different categories — management and general, program services, and fundraising — compare with total support and revenue for the period. Tracking these and other ratios over time can highlight potential problems that may need to be addressed.

Focusing on the Big Picture

Detailed financial information, including the organization's financial statements, should always be made available to the board. But for many purposes, summarized information is more accessible and can help keep the board's focus on big picture issues.

Board members may also appreciate seeing certain information presented in graphic format. Pie charts, bar charts, and other visuals, as appropriate, can make complex financial information easier to digest. Including explanatory text where necessary can also help board members put financial data in context and interpret the numbers.

Call on Us

Communicating up-to-date financial information that is both accurate and understandable allows board members to engage in meaningful discussions and make informed financial decisions. For assistance in developing useful financial metrics and reports for your nonprofit organization, please don't hesitate to contact us.

A Look at Donor Retention

A recent report* suggests that retaining donors remains challenging for many organizations. The report examines the 2013 – 2014 fundraising results of 8,025 U.S. nonprofit organizations — most of them small to midsize organizations — averaging $833,475 in annual giving. Among the findings:

- The median donor retention rate in 2014 was 43% (meaning only 43% of 2013 donors made repeat gifts to participating nonprofits in 2014)
- Year over year, there was a 3% net loss in donors (3.615 million new and previously lapsed donors compared to 3.713 million lapsed donors)

Overall, gift dollars grew by $173 million. However, for every $100 gained in 2014, $95 was lost through attrition (i.e., reduced gifts and lapsed donors). For purposes of the analysis, funds raised include cash gifts, pledge payments, recurring gift payments, gifts of marketable securities, and the gift portion of special event income.

* *2015 Fundraising Effectiveness Project Survey Report,* Association of Fundraising Professionals, 2015

Keep Them Giving

Raising money from new donors is important. But turning those donors into repeat donors is also critical to the long-term success of an organization's fundraising efforts.

Typically, an organization spends more money to attract a new donor than to encourage an existing donor to give again. As a result, the positive financial impact of improving donor retention rates can be significant over time.

Strategies To Consider

Organizations that strive to build ongoing relationships with their donors are more likely to be rewarded with continued support. The suggestions that follow may prove helpful.

Say thank you. Acknowledging each gift the organization receives with a personalized communication — and doing so promptly — gets the donor relationship off to a good start. In addition to sending written acknowledgments, organizations might consider phoning at least some of their donors to thank them for their contributions.

Engage and inform. Opportunities to interact with donors and let them know about the organization's work and upcoming events have proliferated. Whether it's through social media, e-mail, traditional mailings, or a combination, organizations should have a plan to keep their name in front of donors and enhance engagement — without being viewed as intrusive.

Watch timing. Along the same line, organizations should be cautious not to solicit contributions from past donors too often. Instead of motivating donors to give more, asking for money too frequently could have the opposite effect and only serve to alienate them.

Encourage regular giving. Having a monthly giving program in place that interested donors can sign up for voluntarily helps avoid this problem. To help get the word out, an organization should highlight its giving program at every opportunity.

Connect with younger adults. They may not be able to make big cash contributions now, but the Millennials are a large generation with significant potential as a future funding source. Establishing a connection with them now can be a smart long-term strategy.

All in

Organizations that view fundraising in a positive light — as an opportunity to promote and support their mission — are likely to have more success than those that see fundraising as a drain on their time and resources. When mission and values come first, donor relationship building becomes a shared responsibility, involving everyone from executives and board members to staff and volunteers.

Organizations should identify a clear message they want to convey to donors about their mission and values. Taking steps to ensure that everyone involved in donor communications understands and is on board with that message can avoid any confusion in the minds of donors that might make them hesitant to commit more money to the organization.

". . . organizations should have a plan to keep their name in front of donors and enhance engagement — without being viewed as intrusive."

Charitable Tax Incentives Restored

The Protecting Americans from Tax Hikes (PATH) Act of 2015, signed into law late last year, restored and made permanent several federal income-tax provisions designed to encourage charitable giving.

Contributions from IRAs

Charitably minded individuals age 70½ and older continue to have the ability to have up to $100,000 a year directly transferred from their individual retirement accounts (IRAs) to qualifying charitable organizations. Qualified charitable distributions are excluded from taxable income.

A qualified charitable distribution offers the donor the potential for greater tax savings than a taxable IRA withdrawal followed by a cash contribution, for several reasons. First, the donor's adjusted gross income is not increased by the amount of the distribution, which could be helpful in qualifying the donor for various other tax breaks. Second, in the latter scenario, the donor might not receive a first-year deduction equal to the full contribution due to the tax law's percentage-of-income limits on charitable deductions. And third, even though IRA charitable distributions are nontaxable, they count toward satisfying the IRA owner's minimum distribution requirement for the year.

Qualified Conservation Contributions

The PATH Act makes permanent the more generous income-based ceilings applicable to individual donors' tax deductions for charitable contributions of qualified real property interests exclusively for conservation purposes. Instead of the deduction ceiling that normally applies — generally, 30% of the taxpayer's "contribution base" — deductions for qualified conservation contributions are subject to a 50% ceiling (100% if made by a qualifying farmer or rancher). Amounts that are not deductible because of the applicable percentage limitation may be carried over for up to 15 years.

The law also makes permanent the higher deduction limit (100% of adjusted taxable income) and the 15-year deduction carryover period for qualified conservation contributions by corporate farmers and ranchers.

Donations of Food Inventory

Businesses continue to receive an enhanced deduction for charitable contributions of food inventory. The food must be "apparently wholesome" — that is, be intended for human consumption and meet all quality and labeling standards imposed by government laws and regulations, even though the food may not be readily marketable because of age, appearance, freshness, size, surplus, grade, or other conditions. The PATH Act also makes certain other taxpayer-friendly changes with respect to donations of food inventory.

News from the IRS

The following are some additional tax-related developments of interest to nonprofit organizations.

Donee reporting regulations. The IRS has withdrawn proposed regulations regarding the contemporaneous written acknowledgments taxpayers must have on hand to substantiate their charitable contributions of $250 or more. The regulations would have given organizations the option of reporting the information their donors require for substantiation purposes on a new IRS information return to be sent to the IRS and the donor.

Although the proposed donee reporting method was to be optional, organizations and charity regulators expressed concerns about it. A key concern was the potential for taxpayer identity theft, since organizations electing to use the new method would have been required to obtain, store, and send to the IRS their donors' personal information (names, addresses, and Social Security or other taxpayer identification numbers).

Social welfare organizations. The IRS has announced its intention to issue temporary regulations implementing a new tax law provision added by the Protecting Americans from Tax Hikes (PATH) Act of 2015 that requires a Code Section 501(c)(4) social welfare organization formed after December 18, 2015, to provide the IRS with notification that it is operating as a Code Section 501(c)(4) organization. Certain existing social welfare organizations also must provide the notification. Affected organizations will have at least 60 days from the date the regulations are issued to submit the notification.

Transportation fringe benefits. For 2016, employers may provide up to $255 a month in transit passes or transportation in a commuter highway vehicle as a nontaxable fringe benefit. This figure reflects the PATH Act provision creating parity between the exclusion for transportation fringe benefits and the exclusion for qualified parking benefits.

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Changes to Nonprofit Accounting Standards: An Update

The Financial Accounting Standards Board (FASB) is working on a proposal that would make substantive changes to not-for-profit financial statement reporting.* The FASB's objective is to improve net asset classification requirements and the information provided in the financial statements and notes about liquidity, financial performance, and cash flows. This initiative represents the first effort to update the fundamental reporting model for nonprofit entities in more than 20 years.

In its initial redeliberations of the proposal in December 2015 following a comment period on the exposure draft, the Board decided not to require organizations to use the direct method of presenting operating cash flows. Use of either the direct or the indirect method would continue to be allowed. Additionally, nonprofits choosing to use the direct method would no longer have to provide the indirect reconciliation.

The Board affirmed its original proposals that would require nonprofits to:

- Present only two net asset classifications: net assets with donor-imposed restrictions and net assets without donor restrictions
- Disclose the amounts and purposes of board-designated net assets on the face of the financial statements or in the notes
- Classify the entire amount by which endowment funds are "underwater" within net assets with donor restrictions rather than within the unrestricted category
- Disclose certain information with respect to underwater endowment funds, including the organization's policy to either reduce expenditures or not spend from underwater endowment funds, the aggregate fair value of underwater funds, the aggregate original endowment gift amount or level required to be maintained (by donor stipulations or by law), and the aggregate amount of the deficiencies

* *Presentation of Financial Statements of Not-for-Profit Entities*

Can We Help?

Our firm offers a broad range of audit, tax information, return preparation, and executive board consulting services to nonprofit organizations. If we can be of service to you, please call.