CHESTER COUNTY community FOUNDATION

WHAT DONORS LOOK FOR IN YOUR NONPROFIT FINANCIALS

Louise Schorn Smith, CPA

Countryside Consulting

louise@countrysidepa.net

growing philanthropy

BOARD DUTIES

1. Ensure Legal & Ethical Integrity
2. Build a Competent Board
3. Determine Mission & Purpose; Ensure Effective Planning; Monitor & Strengthen Programs & Services
4. Protect Assets & Provide Financial Oversight
5. Ensure Adequate Financial Resources
6. Enhance the Organization's Public Standing
7. Select, Support & Evaluate the Chief Executive

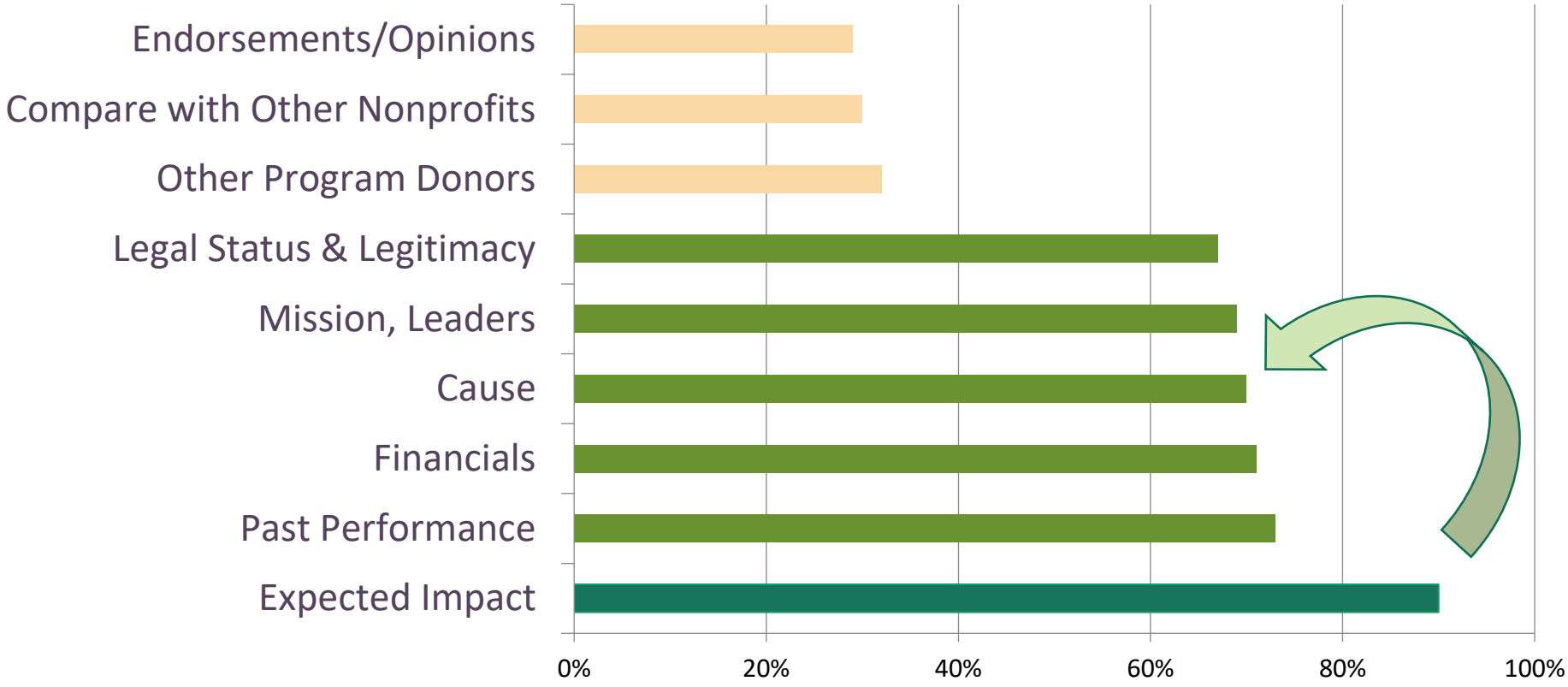
BoardSource, https://boardsource.org/ Washington DC

OVERVIEW: TODAY'S DISCUSSION AREAS

- **What do major donors look for when considering a major gift to a nonprofit?**
  - How do we define a **major gift.** How much money are we talking about?
  - What's most important to major donors?
  - How do major donors discern the financial health of a nonprofit?
  - What's important to donors when it comes to efficiency ratios, revenue and expense trends, and evidence of financial stability? How much is "too rich to give to" and "too poor to give to" ?
    - How much in operating reserve should a nonprofit have? Too rich/too poor?
    - If a nonprofit has an endowment, do donors see that as 'too rich', so they won't give?

- **What should the Board pay attention to in a nonprofit's annual audit & IRS 990 filing?**
  - What should Boards focus on?
  - What do donors look for in our IRS990 filings, especially online at Guidestar by Candid?
  - How can we monitor, correct, and improve our nonprofit's Guidestar by Candid data?

What Do Major Donors Look at When Considering a Gift?



@50% of major donors admit they really don't know how nonprofits use their money.

https://learn.guidestar.org/give-to-charity/money-for-good

What Do Major Donors Look at When Considering a Gift?

Level 1: Basic Compliance 501 (c) (3) in good standing

Level 2: Performance

- Constituents served
- Organizational mission, vision, major programs
- Performance track record, evaluation & outcomes
- Relationships, partners & networks
- Governance & executive leadership
- External communications
- Financial health

Sources:

Site Visits

Media/PR/Communications

Community/Sector Feedback

Audit – IRS 990

Why Is the IRS Form 990 Important to the Board?

1. **What** is an IRS 990?
2. What is the **Board's responsibility** for the 990?
3. What **information** is contained in the 990?
4. What **changes** can the nonprofit organization make as a result of the information contained in the 990?
5. **Where** is our nonprofit organization's 990?
6. **Who uses** the 990? For what?

The importance of GuideStar.org

1. How does **GuideStar** by Candid obtain our 990?
   Why does GuideStar **post** our 990 online?
   Can **anyone** see our 990 online at GuideStar?
2. How can we monitor, correct & improve our nonprofit's **GuideStar data** online?
   https://www.GuideStar.org/

IRS FORM 990 AREAS

How does it relate to the audit?
What is the IRS 990 used for?
What is the Board's responsibility for 990 contents & filing?

- **Program Service Accomplishments**
  - Defines the mission of the nonprofit organization and its impact
- **Reporting on Key Managers and Compensation**
  - Allows for comparison of similar npo's salary and compensation levels
- **Governance Reporting and Policies**
  - Defines what policies are required, and how they should be documented. Answers the IRS definition of **good governance**
- **Disclosures – 990 Schedules**
  - Sch A – Describes how the npo is **tax exempt** and verifies **public support** % over time
  - Sch B - List of contributors (names blocked out) indicates diverse community support
  - Sch D - Detail of financial information, reconciling between the 990 and financial statements
  - Other schedules - Grants, Non-cash contributions
- **Financial Information**
  - Overall: use historical information to identify trends & plan for future operations
  - Revenue Sources
  - Functional Expenses
  - Balance Sheet

IRS Form 990: Nonprofit Primer

IRS Form 990 is designed to enhance transparency of an exempt organization's mission and activities, and to promote compliance with applicable tax law requirements. The 990 helps board members affirm their fiduciary responsibilities and provides donors with information. This checklist highlights certain sections and schedules of importance, intended for those who are not tax experts.

Summary

A snapshot of the nonprofit's mission & governance.
Key financial, compensation & operational information.
•Is the brief description of the mission candid and clear?
•Does the current year summary of financial information compare favorably or unfavorably with the prior year?

Part III—Statement of Program Service Accomplishments

Provides the nonprofit an opportunity to increase awareness about itself by fully describing its program services and all related expenditures.
•Does the information explain why the nonprofit exists? Who it serves? Activities it undertakes to accomplish its mission?
•Are program services described in sufficient detail to present a comprehensive portrayal of the nonprofit?

•Part IV—Checklist of Required Schedules

Asks questions to determine whether particular schedules must be completed. The schedules provide detailed info that enables the IRS to evaluate the likelihood of violations to the rules.
•The nonprofit consider changes in its policies and procedures, especially if there is a Yes response to questions 25, 26 or 27.

•Part V—Statements Regarding Other IRS Filings and Tax Compliance

A checklist of other IRS compliance that might be required by the nonprofit, not necessarily related to the Form 990.
•Have paid personnel been properly classified as employees rather than independent contractors, to avoid payroll tax problems?
•If the nonprofit received more than $250 from a donor, was a receipt furnished to enable the donor to substantiate their charitable deduction?
•Is the nonprofit potentially subject to unrecorded penalties and interest (if line 3b, 5c, 6b, 7b, 7g or 7h is answered "No," or if line 5a, 5b, 8, 9a or 9b is answered "Yes")?

Part VI—Governance, Management and Disclosure

Key governing body & management policies; and whether/how the nonprofit promotes transparency and accountability to its donors.
•If the nonprofit does not have written policies indicated by lines 12a, 13, 14 and 16b, should the board consider adopting any of these?
•If line 15a or 15b is answered "No," should the board consider a change in the procedures for setting compensation to minimize the future risk of challenge by the IRS on excess benefits?
•If the nonprofit conducts activities in multiple states, is it properly registered in those states and satisfying their filing requirements?

Part VII—Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees and Independent Contractors

Transparency on compensation, to disclose the degree to which salaries and benefits are in line with comparable community standards.
•Does the compensation of those listed in Part VII appear justifiable in view of the organization's activities, their responsibilities, and a review of comparable organizations? (Note: Revisit Part VI, lines 15a and 15b, especially if there is a "No" response.)

Part VIII—Statement of Revenue

Nonprofit's sources of support, including potentially taxable unrelated business income.
•Does the revenue data indicate too much reliance on a source that could be jeopardized by a weak economy, declining stock market or other external factor (i.e., should alternative revenue sources be considered or emphasized)?
•Too much reliance on unrelated business income [as reported in column (C)] could risk a nonprofit's exempt status. Is column (C) insignificant as compared to totals in column (A)?

Part IX—Statement of Functional Expenses

Is an appropriate amount of expenditure being directed to activities that further the nonprofit's exempt purpose?
•Are compensation and benefits (lines 5 through 9) an appropriate portion of the nonprofit's revenue?
•Are certain expenses justifiable (e.g., lines 11a -11g, 12, 17, 18 and 19)?
•Do column (C) management and general expenses and column (D) fundraising expenses totals appear reasonable relative to total program service expenses in column (B)?

IRS Form 990: Nonprofit Primer

Part X—Balance Sheet

How financially stable is the nonprofit?

- Is an adequate (or excessive?) proportion of cash (line 1) being kept in non-interest bearing accounts?
- Are resources being diverted from program service activities to related party loans (lines 5 and 6)?
- Is oversight being exercised over related party loans to ensure adequate collateral, interest, timely repayment, etc.?
- Are notes and loans receivable (line 7) adequately collateralized and monitored for timely repayment?
- Does an increase, if any, in accounts payable or accrued expenses (line 17) during the year suggest potential cash flow problems?

Part XII—Financial Statements and Reporting

Explains the level of involvement by an independent accountant. Explains the reporting required for any audits required for nonprofits that receive federal grants under the Single Audit Act and OMB Circular A-133.

- If the nonprofit does not have an independent audit (line 2b), are its financial resources sufficiently large to make an independent audit prudent?
- If audited, do the auditors report to the group responsible for overseeing the financial reporting process (such as an audit or finance committee or a governing board)?

Schedule A—Public Charity Status and Public Support

Indicates a nonprofit's reason for public charity status (i.e., why it is not a private foundation) and to provide the IRS with detailed information about its sources of financial support.

- Does the data (Part II Section C or Part III Sections C and D) indicate that the organization is in danger of being tipped into private foundation status, rather than remaining a public charity?

Schedule C—Political Campaign and Lobbying Activities

501(c)(3) nonprofits are prohibited from participating in a political campaign & are subject to limitations on their lobbying activities. They can, however, advocate.

- If exempt under Section 501(c)(3), are policies followed to prevent participation in a political campaign that could jeopardize tax-exempt status?
- If the nonprofit is a Section 501(c) (3) entity that is eligible to make the lobbying expenditure election but has not, should it do so to minimize the likelihood that exempt status will be lost because of excessive lobbying (see Part II-A)?

Schedule J—Compensation Information

The compensation information required in Schedule J is much more detailed than that required in Form 990 Part VII. Review Schedule J to discern evidence of waste, extravagance and financial abuse.

- If any box on line 1a is checked, is the economic benefit warranted or should it be re-examined?
- Does the nonprofit require strict accountability for expense reimbursements to prevent abuse (lines 1b and 2)?
- Is the nonprofit setting compensation based on one or more methods indicated by the box descriptions for line 3? (Note: The more boxes, the better.)
- If any of the questions on lines 4 through 8 are answered "Yes," do the indicated transactions suggest that changes should be made in non-fixed compensation arrangements to avoid windfall payouts?

Schedule L—Transactions with Interested Persons

Financial arrangements between the nonprofit and disqualified persons or other interested persons.

- Did the organization consider all direct or indirect transactions or relationships that may require disclosure? (See Part IV questions 25 through 28.)
- Are business transactions with interested persons fully disclosed, including the amount, nature of the transaction, and relationship with the nonprofit, management and board?

Schedule O—Supplemental Information

Is the 990 review process fully described?

- Does the nonprofit describe how public documents (Forms 990, 990-T, if applicable, and 1023) are made available for public inspection (website, office, **GuideStar,** etc.)? GuideStar

TRANSPARENCY: EACH NONPROFIT'S IRS 990 DATA IS ONLINE

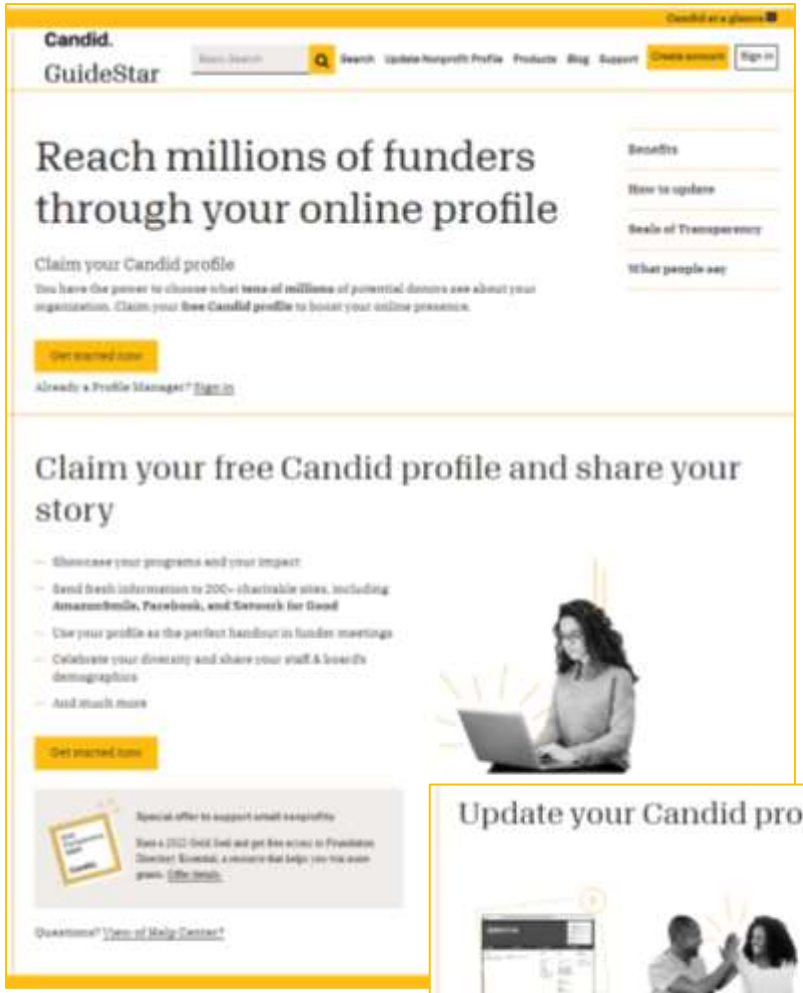
https://www.guidestar.org/

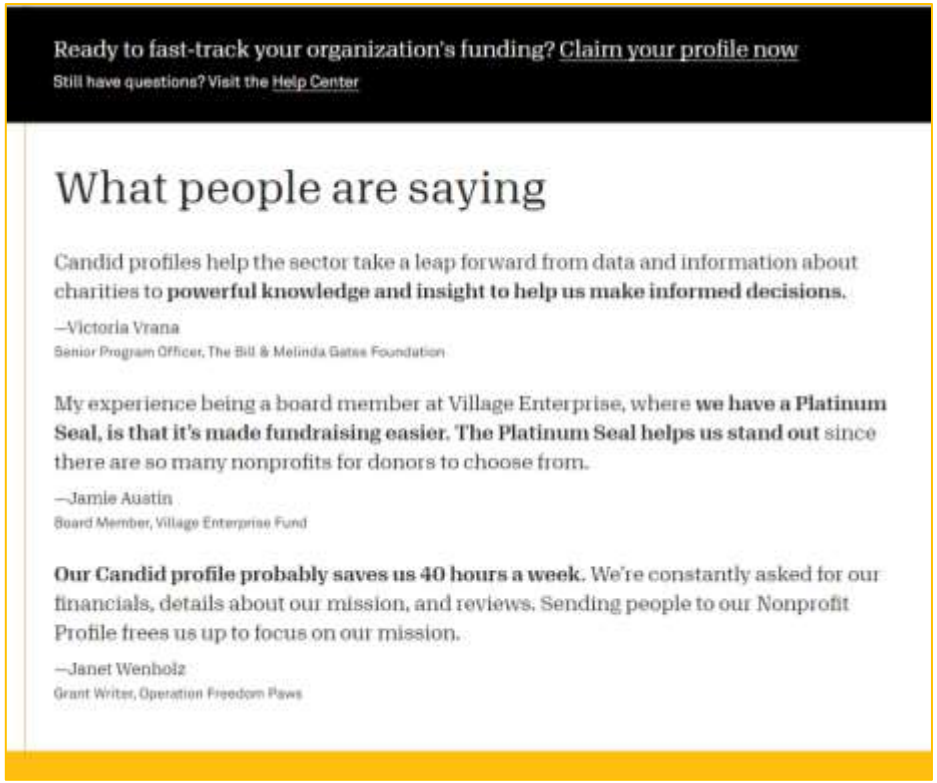
Where Do Donors See & Use GuideStar Nonprofit Profile Info?

- **AmazonSmile Facebook JustGive Network for Good VolunteerMatch SalesForce.org**
- **All major U.S.-based donor-advised funds,** such as Vanguard, Fidelity Charitable, etc.
- **70,000+ private foundations**
- **800+ community foundations**

GUIDESTAR by Candid.

NPO IRS 990s are online.
Look up your own npo at GuideStar & compare to others
https://www.GuideStar.org/ **info@chescocf.org** **Lincoln28$**





GUIDESTAR by Candid.

NPO IRS 990s are online.
Look up your own npo at GuideStar & compare to others
https://www.GuideStar.org/ info@chescocf.org Lincoln28$

Financials

Audubon Society of Western Pennsylvania
Fiscal year: Jul 01 – Jun 30

Audubon

Financial documents
Download audited financials

✓ Yes, financials were audited by an independent accountant.

Revenue vs. expenses: 2022 breakdown

SOURCE: IRS Form 990

NET GAIN/LOSS: -$163,870 in 2022

Total revenue:	$1,940,052
Contributions:	$838,811
Gov't grants:	$255,390
Program services:	$267,913
Investments:	$223,486
Special events:	$0
Sales:	$249,677
Other:	$3,775
Total expenses:	$2,103,922
Program services:	$1,877,498
Administration:	$147,792
Fundraising:	$78,632

Note: Other component data are not available, the graph displays the total

Liquidity in 2022

SOURCE: IRS Form 990

6.26

Average of 13.10 over 10 years

Months of cash in 2022

SOURCE: IRS Form 990

1

Average of 7.1 over 10 years

Fringe rate in 2022

SOURCE: IRS Form 990

18%

Average of 20% over 10 years

Funding sources

Source: IRS Form 990

Assets & liabilities

Source: IRS Form 990

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https://www.GuideStar.org/
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GuideStar Peer Analysis/Business Model Indicators | No. of orgs | Date Created
Cohort: ChesCo Senior Centers | 1,338 | 9/12/2024

Peer Analysis
5 Senior Centers
Chester County

Profitability	Oxford	Kennett	West Chester	Phoenixville	Coatesville	Peer Median	Cohort Median
Unrestricted surplus (deficit) before depreciation	($40,999)	$154,961	$195,463	$315,958	$14,467	$154,961	$38,781
As a % of expenses	-6.2%	47.0%	26.0%	53.8%	4.0%	26.0%	7.7%
Unrestricted surplus (deficit) after depreciation	($76,945)	$117,825	$172,248	$282,308	($28,899)	$117,825	$19,823
As a % of expenses	**-11.0%**	**32.1%**	**22.2%**	**45.5%**	**-7.1%**	**22.2%**	**3.6%**

Revenue Composition	Oxford	Kennett	West Chester	Phoenixville	Coatesville	Peer Median	Cohort Median
Total revenue (unrestricted & restricted)	$887,862	$460,645	$947,688	$859,299	$414,842	$714,067	$5,020,425
Total revenue, % change over prior year	84.6%	-21.3%	34.2%	30.9%	43.0%	34.3%	546.5%
Program services revenue	0.5%	5.1%	0.3%	5.3%	3.3%	2.9%	27.8%
Membership dues	0.0%	0.0%	0.1%	0.8%	0.9%	0.4%	1.3%
Investment income	0.7%	2.7%	0.1%	1.1%	0.1%	0.9%	2.7%
Government grants	10.2%	42.4%	25.9%	47.7%	41.3%	33.5%	31.2%
All other grants and contributions	81.2%	46.8%	72.8%	45.1%	53.1%	59.8%	30.4%
Other revenue	7.4%	3.0%	0.9%	0.0%	1.3%	2.5%	5.2%

Expense Composition	Oxford	Kennett	West Chester	Phoenixville	Coatesville	Peer Median	Cohort Median
Total expenses before depreciation	$665,281	$329,583	$752,402	$587,216	$362,154	$539,327	$4,584,567
Total expenses, % change over prior year	26.3%	-32.6%	11.5%	-4.6%	-4.4%	-0.8%	105.1%
Personnel	53.8%	46.5%	41.5%	46.3%	63.5%	50.3%	47.7%
Professional Fees	4.1%	15.7%	5.8%	1.9%	6.7%	6.8%	7.4%
Occupancy	3.4%	6.3%	18.8%	8.1%	11.9%	9.7%	8.6%
Interest	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%
Pass-Through	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.0%
All other expenses	38.6%	31.5%	33.9%	44.4%	17.9%	33.3%	30.9%

Capital Structure Indicators	Oxford	Kennett	West Chester	Phoenixville	Coatesville	Peer Median	Cohort Median
Liquidity							
Months of cash	4.0	11.2	8.9	3.4	7.2	7.2	4.3
Months of cash and investments	8.4	31.3	8.9	7.3	7.2	8.4	6.2
Months of est liquid unrestricted net assets	8.4	14.3	5.9	2.8	4.8	5.9	5.1

Balance Sheet Composition	Oxford	Kennett	West Chester	Phoenixville	Coatesville	Peer Median	Cohort Median
Cash	$222,026	$307,833	$559,840	$166,986	$216,231	$222,026	$198,045
Investments	$244,643	$552,069	$0	$191,104	$0	$191,104	$0
Receivables	$221,802	$24,305	$19,500	$18,665	$2,667	$19,500	$12,555
Gross land, buildings and equipment (LBE)	$1,275,459	$1,794,640	$664,333	$1,276,328	$1,363,772	$1,276,328	$491,522
Accumulated depreciation (% of LBE)	61.8%	60.1%	27.4%	60.2%	12.3%	60.1%	49.2%
Liabilities (as % of assets)	7.3%	2.3%	10.7%	7.1%	2.2%	7.1%	7.2%
Unrestricted net assets	$873,683	$1,091,325	$855,500	$644,499	$1,341,219	$873,683	$401,850
Temporarily restricted net assets	N/A	N/A	N/A	N/A	N/A	N/A	$0
Permanently restricted net assets	N/A	N/A	N/A	N/A	N/A	N/A	$0
Total restricted net assets	$241,125	$480,983	$99,715	$182,405	$42,670	$182,405	$0
Total net assets	**$1,114,808**	**$1,572,308**	**$955,215**	**$826,904**	**$1,383,889**	**$1,114,808**	**$623,372**

Name		Location	Recent FYE	Subject Area
Oxford Area Neighborhood Services Center Inc	1	OXFORD, PA	6/30/2020	Human services, Basic and emergency aid, Food aid
Kennett Area Senior Center	2	Kennett Square, PA	6/30/2021	Senior services

WRAP-UP: DID WE COVER TODAY'S DISCUSSION AREAS?

- **What do major donors look for when considering a major gift to a nonprofit?**
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