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Profitable Solutions for Nonprofits

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Effective altruism gains momentum

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Proponents of so-called "effective altruism" have gained footing in recent years. That's evidenced by the growing role of organizations like GiveWell and The Life You Can Save, which help so-called effective altruists select organizations to support. That help is based on objective data about the organizations' effectiveness at helping others.

As more information on results becomes available, nonprofits will need to adjust some of their reporting and marketing practices to better appeal to the "altruists." Take some steps now to focus your message on your impact.

The movement in a nutshell

To appeal to effective altruists, you first must understand what drives them. Effective altruism — also known as "strategic giving" — doesn't focus on how effective a nonprofit is with its funds. Rather, it looks at how effective *donors* can be with their money and time. Instead of being guided by what makes them feel good, altruists use evidence-based data and effective reasoning to determine how to help others the most.

Effective altruists generally consider a cause to be high impact to the extent it's:

- Large in scale (it affects many people by a great amount),
- Highly neglected (few people are working on it), and
- Highly solvable (additional resources will make a substantial dent in the problem).

For example, a high impact cause may be to support the Against Malaria Foundation, which distributes long-lasting mosquito nets. Malaria is widespread but easily preventable with such nets. A donation of $2–$3 is estimated by the organization to protect two people for several years.

Because they strive to get the most bang for their buck, some effective altruists focus on nonprofits that help people in the developing world rather than those that work with U.S. residents. So, instead of donating to a U.S. school, an altruist interested

in education might donate to an organization that provides nutrition to children in poor countries — because improving their diet also will improve their ability to learn. (Also see "How to convert 'social donors' to regular supporters" on p. 7.)

Criticisms

Effective altruism isn't without its skeptics. Some argue, for example, that planting doubt in the minds of would-be donors over whether they're making the right choices could deter them from giving at all. Pressuring them to do additional research might dissuade them, too.

Others question whether the focus on measurable outcomes results in a bias against social movements and arts organizations, whose results are hard to measure. Organizations in those arenas usually work to eliminate broader problems, such as income inequality or oppression, where progress isn't easily quantified. The critics assert that effective altruism's approach does little to tackle the societal issues behind many of these problems.

Critics also point out that an evidence-based approach ignores the role that emotional connection plays in charitable donations. When it comes to choosing which organizations to support, givers' hearts frequently matter more than their heads. Look no further than the donations that pour in after a natural disaster for evidence that such motivation works.

A hybrid approach

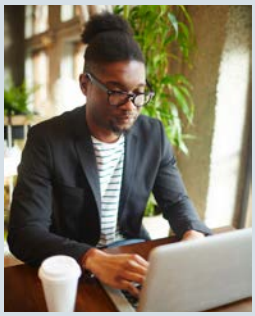
A study recently published in *Psychological Science*, "Impediments to Effective Altruism: The Role of Subjective Preferences in Charitable Giving," looked at the influence of information on nonprofits' effectiveness. The researchers found that, even when such information is presented in a way that makes it easy for donors to compare organizations' effectiveness, donors often choose less effective options that represent their personal preferences. In other words, they donate to the causes that they prefer over those that do the most good.

That's not to say that effectiveness information doesn't matter at all. According to the researchers, while donors' subjective preferences dominate their selection of causes, they will turn to objective information when choosing among charities that support their chosen causes. Thus, nonprofits should develop materials with an emotional pull as well as those that show impact.

Don't overlook the trend

Traditional charitable giving isn't going anywhere, but nonprofits shouldn't ignore the potential benefits of effective altruism. Once donors deem your organization worthy, they may well donate as much as 10% of their income. That kind of money could go a long way toward supporting your mission. ■

Helping staff recruitment



Effective altruists don't take "the greatest good" into account just when making decisions about which nonprofits to financially support — they also think about it when choosing careers. This could pay off for not-for-profits.

Job seekers (younger job seekers, in particular) increasingly look for what the website 80000hours.org calls "high-impact careers." According to the site, which bases its name on the number of working hours in a typical career, one-third of young graduates want to make a difference in their careers by working on causes they believe in. Or they want to make *a lot* of money in lucrative private sector careers that allow them to give generously to their favored causes.

The primary factor these potential employees consider is how much of a contribution they can make toward solving problems they deem ripe for effective altruism. If your organization deals with such problems and hopes to recruit these candidates, hone your message. Include empirical evidence that highlights the significant contributions they can make by working for you.

Keeping your organization financially steady

A key fiduciary duty of a nonprofit's board of directors is to oversee and monitor the organization's financial health. Some financial matters may jump out at board members, such as the loss of a major funder or a successful fundraising event. But other financial factors are less flashy. Here are some to consider.

Watch for budget trouble spots

Certain budget-related issues, for example, hint at rocky financial times to come. A nonprofit with *no* budget is a flashing red light — the lack of an annual operating budget suggests an undisciplined approach to fiscal matters.

Larger nonprofits should draft budgets for each program or department. Ideally, board members will see that management-proposed budgets are in line with board-developed and approved strategies.

Once a budget has been okayed, the board should compare it to actual results for unexplained variances. Some discrepancies are bound to happen, but staff must explain *significant* differences. There may be a reasonable explanation, such as program expansion, funding changes or economic factors beyond the organization's control. Where necessary, the board should direct management to modify activities to mitigate negative variances. Instituting cost-saving measures may be in order.

Board members also should beware of overspending in one program that's funded by another. Watch, too, for dips into the organization's "rainy day" fund (its "reserves"), the raiding of an endowment or unplanned borrowing. Such moves might mark the beginning of a financially unsustainable cycle.

Pinpoint financial statement problems

Untimely, inconsistent financial statements — or statements that aren't prepared using U.S. Generally Accepted Accounting Principles (GAAP) — can

lead to poor decision-making and undermine a nonprofit's reputation. They also can make it difficult to obtain funding or financing if deemed necessary.

Financial statements not prepared monthly and in accordance with GAAP, or another comprehensive basis of accounting, can be unreliable. They could signal understaffing, poor internal controls, an indifference to proper accounting practices or efforts to conceal mismanagement or a fraud. And the statements are likely difficult to compare to other nonprofits in the same niche. The board generally should receive the nonprofit's financial statements within 30 days of the close of a period.

For larger nonprofits, the board or audit committee should also insist on annual audits and expect to select the audit firm. Members of the responsible group, such as an audit committee, should communicate directly with auditors before and during the process. All board members should have the opportunity to review and question the audit report.

Listen to donor concerns

If the board starts to hear from long-standing, passionate supporters who're harboring doubts about the organization's finances, that's a very bad sign. What are they seeing or hearing that prompts their concerns?

The board also should note when development staff begin reaching out to historically major donors outside of the usual fundraising cycle. These contacts could mean the organization is scrambling for cash, and hoping its most dependable donors can fill the gaps.

Keep an eye out for power grabs

It's understandable that board members who have full-time jobs and other responsibilities might cede some of their responsibilities to a trusted executive director. However, it may be risky.

So, what are the signs of an executive director (ED) who wields too much power? The board should think about changes if the executive director:

- Insists on choosing the organization's auditor,
- Adds board members who are friends, or
- Makes strategic decisions without board input and guidance.

Additionally, an ED shouldn't be allowed to ignore expense limits. Going outside of the budget or policy guidelines should require board approval.

A special role

Board members have a special role to play when it comes to an organization's financial well-being. Make sure that you understand the financial information you're given from month to month. Don't be afraid to ask questions. And check "facts" and figures that don't make sense to you. ■

Rightsizing your board: How many directors do you really need?

State law typically sets the minimum number of directors a not-for-profit must have on its board. But as long as that requirement is fulfilled, it's up to each organization to determine how many total board members it needs. While there's no "sweet spot" that will work for every organization, several guidelines can help you determine the right board size for your circumstances.

Why size matters

Both small and large boards come with perks and drawbacks. For example, smaller boards allow for easier communication and greater cohesiveness among the members. Scheduling is less complicated, and meetings tend to be shorter and more focused. Plus, the members' higher level of involvement can heighten their satisfaction.

Several studies have indicated that group decision making is most effective when the group size is five to eight people. But boards on the small side of this range may lack the experience or diversity necessary to facilitate healthy deliberation and debate. And the members may feel overworked and burn out.

Burnout is less likely with a large board where each member shoulders a smaller burden, including when it comes to fundraising. A large board may include more perspectives and a broader base of professional expertise — for example, financial advisors, community leaders and former clients. It fosters a strong institutional memory and provides a more extended outside network.

On the other hand, larger boards can lead to disengagement, because the members may not feel they have enough responsibilities or sufficient voice in discussions and decisions. Larger boards also require more staff support and strain the executive director, who must develop a relationship with each member.

What you should weigh

If you're thinking about resizing your board, think about:

- The current sentiment about its size (is the consensus that it's too large or too small?),
- Board member responsibilities and desirable expertise,
- Fundraising needs,
- Committee structure,
- The organization's life stage (for example, start-up, or mature),
- The size of the organization's staff, and
- The complexity of the issues facing the board.

You may have heard that it's wise to have an uneven number of board members to avoid 50/50 votes. In such a case, though, the chair can make the decision. Moreover, an issue that produces a 50/50 split usually deserves more discussion to come closer to consensus.

Generally, it's best to set a *range* for board size in the bylaws, rather than a precise number.

How to downsize

If you decide a larger board is in order, you likely already know how to recruit more members. Trimming the board is a trickier situation.

For starters, you might need to change your bylaws. Generally, it's best to set a *range* for board size in the bylaws, rather than a precise number. Your bylaws already might call for staggered terms, which makes paring down simpler; as members' terms end, just don't replace them.

If part of the motivation for reduced board size is a lack of engagement, you could establish an automatic removal process. For example, members are removed for missing a specified number of meetings. But remind exiting board members that the board isn't the only way they can serve the organization.

Beyond the numbers

One of the best methods for recruiting and retaining committed board members is to ensure an engaging experience. Maintaining an appropriately sized board that makes the most of their talents is the first step. ■

NEWSBITS

Foundation Center and GuideStar join forces

The Foundation Center, which maintains the most comprehensive database on foundations and their grantmaking, is teaming up with GuideStar, an online database of about 2.7 million nonprofits. The two are forming a new nonprofit organization known as Candid, which will offer access to billions of pieces of data and more than 140,000 grantmaking organizations.

The organization plans to develop joint resources, align their data collections to provide more valuable information and offer training to nonprofit and foundation employees. Among other initiatives, Candid plans to create a common grant application and reporting framework that nonprofits can use for multiple foundations. ■

How to convert "social donors" to regular supporters

Almost 25% of U.S. adults identify as "social donors" who contribute through a fundraising event or peer-to-peer campaign. A new study uncovers how nonprofits can best reel in these donors to become regular supporters.

Fundraising technology company OneCause surveyed more than 1,000 such donors. It found that those who didn't receive follow-up communication are significantly less likely to say they'll become regular monthly or annual contributors. The biggest factor driving likelihood to convert to regular contributors is whether social donors understand the true impact of their donations; impact matters more to them than recognition. (Also see "Effective altruism gains momentum" on page 2.) ■

What do donors want after a fraud?

The very nature of nonprofits, from their inherent trust to their limited resources for instituting preventive measures, makes them especially vulnerable to fraud. And, because they rely on their public image and donor perceptions of organizational effectiveness for continued funding, nonprofits can find it difficult to recover financially from fraud.

A new study, published in the *Journal of Accounting, Ethics & Public Policy*, considered which "reputation-repairing" actions improve the likelihood that potential donors would contribute following a major misappropriation of funds. It found that, statistically, improving the board of directors' oversight had the only significant positive effect on potential donations. But, notably, firing an executive director who wasn't involved in the fraud reduced both the likelihood and amount of planned giving. ■

Sharing "lessons from the church boardroom"

Two veterans of the Christian-based nonprofit arena have published *Lessons from the Church Boardroom*, a new book with practical ideas on church board governance. Dan Busby, president of the Evangelical Council for Financial Accountability, and John Pearson, a board governance consultant, lay out 40 short insights for inspiring a church's board. For example, they discuss the proper division of duties between board members and staff, outline best (and worst) practices for a church boardroom and identify meeting time-wasters. ■

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Donor Acknowledgement Letters: The Fundamentals

The Tax Cuts and Jobs Act tweaked nonprofit tax laws from multiple angles. With the focus on these large-scale changes, smaller requirements are easy to overlook.

A small-scale change that should not be missed is the IRS's new substantiation rules requiring individuals to substantiate all donations they make to charitable organizations.

Details on the New Substantiation Requirement

IRS regulations require donors to have a bank statement or a written communication from the charity verifying their donations before those donations become eligible for a deduction. When a donor makes a single donation of $250 or more, written acknowledgement from the charity is mandatory.

Nonprofits will be the ones who must administer the acknowledgement letter to their donors. When drafting these donor acknowledgement forms, nonprofits should include, at a minimum, the following information:

- Name of their organization
- Date of the contribution
- Amount of the cash contribution or descriptions of non-cash items received
- A statement that no goods or services were provided to the taxpayer in return for the donation (e.g., *"No goods or services were received in return for this gift"*).

The IRS also recommends that the letter specify that the nonprofit is a tax-exempt charity recognized under §501(c)(3) of the U.S. Tax Code.

Additional Disclosures

Occasionally, taxpayers will make a contribution to a charity that is partly a donation and partly a payment for goods or services. Consider a taxpayer who pays $500 for a ticket to a charity dinner valued at $80. This taxpayer has made a "quid pro quo" contribution. Quid pro quo contributions valued at more than $75 must be disclosed to the donor in the form of a letter or statement. Nonprofits should provide a good-faith estimate of the value of the goods or services, and they should declare how much of the taxpayer's contribution is deductible.

Example: "Thank you for your cash contribution of $500 that [Organization] received on June 15, 2019. In exchange for your contribution, we offered you a ticket to our fundraising gala valued at an estimated $80."

Failure to provide these disclosure statements to donors will result in a penalty to the charitable organization of up to $10 per contribution, not to exceed $5,000 per fundraising event.

Acknowledgement Letter Best Practices

Nonprofits can draft donor acknowledgement letters in whatever manner and frequency that they please. However, these donor acknowledgement letters can be great opportunities for nonprofits to stay visible and relevant to to their donor base. A few acknowledgement letter "best practices" are to:

- **Draft a template.**
  Have standard donor acknowledgement letters at the ready, and make it easy to fill in the donor and contribution information. This will save your staff time, ensure you've followed all reporting guidelines, and guarantee that no donation gets forgotten.
- **Be prompt.**
  Send these letters promptly after the donation was received. This will reassure the donor that you received their contribution and let them know it was appreciated.
- **Personalize it.**
  Let your donors know how grateful you are they chose to give back to your organization. Some examples of personalization include including that taxpayer's donation history, having your board members sign them before they are mailed, or having a staff member write a hand-written "thank you" with a personalized note to those high-dollar or regular donors.

Looking For More?

These small-scale changes may not be your top concern, but they still need to be addressed. If you want to learn more about this issue or other nonprofit concerns (big or small), consider joining one of our next educational seminars. We use this time to go over new accounting changes and regulatory concerns, and we will share our suggested "best practices" for the nonprofit industry. If you would like to be added to the invitation list for our seminar, please email bconway@laporte.com.