Summer 2021

Profitable Solutions for Nonprofits

LAPORTE
CPAs & BUSINESS ADVISORS

New Orleans | Houston | Baton Rouge | Covington | Houma
Check out our Nonprofit Industry Group page and nonprofit blog.
laporte.com/industry/nonprofit

A year of COVID philanthropy: What it tells us going forward

The COVID-19 pandemic created an unprecedented need for funding — and grantmakers and donors stepped up. Corporations, foundations, public charities and high-net-worth individuals awarded more than $20 billion to address the social, health and economic effects of COVID-19 globally in 2020.

That's just one of the findings in a new report from the Center for Disaster Philanthropy and nonprofit information service Candid, "Philanthropy and COVID-19 in 2020: Measuring One Year of Giving."

Data for the report came from publicly available sources in English, including websites, surveys and funders that report disbursements directly to Candid. The report notes that the data set, while substantial, isn't comprehensive. Nonetheless, it provides vital information for targeting fundraising efforts.

Who gave?

Corporations contributed 44% of the COVID-related funding last year. Corporate giving totaled $9.4 billion and included both cash donations and in-kind support. Corporate support was stronger in the first half of the year than the second, but the report says that's not surprising. It points out that corporations often are among the first to respond in the immediate aftermath of a disaster or crisis.

Donors show their giving preferences in COVID-19-related report

A new report from a biannual survey, on how donors worldwide prefer to give and engage with nonprofits, offers valuable data at a time when every dollar counts. According to the "2020 Global Trends in Giving Report" from Nonprofit Tech for Good, nonprofits probably are missing out if they don't have a recurring giving program.

Fifty-one percent of the more than 13,000 donors surveyed participate in at least one such sustaining program. In Canada and the United States, 57% of respondents are enrolled in a recurring giving program, up from 46% in 2018. By far, most prefer monthly donations (94%) to weekly (3%), annually (2%) and quarterly (1%).

Although your organization might have a preferred channel for receiving donations, donors' preferences vary significantly. In the United States and Canada, 63% of donors prefer giving online with a credit or debit card, while 16% want to mail their donations and 10% use PayPal. Only 4% prefer donating cash, but that's more than the 1% who are fans of "text-to-give."

Forty percent of U.S. and Canadian donors give through Facebook fundraising tools and 12% through Instagram. Notably, though, the vast majority of these donors (88% and 93%, respectively) say they're likely to use the tools again.

Independent foundations, by contrast, more than doubled their support in the second half of the year compared to the first six months, from $1.7 billion to $4.7 billion. The Bill & Melinda Gates Foundation led the way, awarding more than $1.3 billion, followed by the Rockefeller Foundation with $1.1 billion.

Although donor-advised funds (DAFs) also beefed up their giving in 2020, the report says that the growth can't necessarily be directly linked to COVID-19 giving. But a survey conducted by the National Philanthropic Trust found that DAF donors responded urgently to the pandemic. According to the "Donor-Advised Fund COVID Grantmaking Survey," DAF grants to charitable organizations jumped nearly 30% by dollar value in the first six months of 2020, compared with the same months in 2019 — from $6.41 billion to $8.32 billion. The total number of DAF grants during that time grew by 37.4%, from 945,044 grants in the first half of 2019 to about 1.3 million in the first six months of 2020. Organizations in the human services category saw the biggest increase, receiving 78.1% more DAF grants than in the first half of 2019.

Who received?

Corporations aren't required to report their grantmaking, so the recipients aren't always identifiable. Among awards to specified recipients, though, the report says human services organizations received the largest chunk of the funding, at 28%.

Health organizations, which received the most support in the first six months, came in second for the entire year. They received 26% of dollars. Interestingly, less than 2% of dollars ($29 million) but 25% of gifts (863 gifts) were directed to mental health organizations.

Which causes were targeted?

The report asserts that the "twin pandemics" of COVID-19 and systemic racism brought attention to the role philanthropy should play to help achieve policy and systems change. Yet only a relatively small proportion of COVID funding to specified recipients was aimed at such a purpose. Grants focused on equitable access to COVID diagnostics, therapies and vaccines were among the largest awards that fell in this category. Only 1% of the dollars had a specific focus on advocacy and grassroots organizing.

On the other hand, almost a quarter of global funding dollars for specific recipients was designated for communities of color or organizations serving such communities. These dollars largely came from high-net-worth individuals. The percentage dropped to 13% when only institutional philanthropy was considered.

In the United States, 35% of COVID dollars to specific recipients went to black, indigenous and people of color (BIPOC) communities. High-net-worth donors carried the load, designating a higher proportion of their funding (44%) for BIPOC communities. Only 11% of corporate funding to named recipients was designated for such communities.

Eight percent of funding explicitly targeted people with disabilities, including those with psychosocial disabilities. Four percent of COVID dollars was directed at women and girls. Immigrants and refugees received 2% of the funding, and another 2% went to older adults.

How flexible were the awards?

In some highly welcome news for nonprofits, unrestricted or flexible funding skyrocketed as 2020 progressed. In the first six months, only 3% of dollars was unrestricted or flexible; over the entire year, 39% of dollars (and 21% of gifts) was so described. There's a caveat, though: Much of this is due to "very large, unrestricted grants" made by MacKenzie Scott (the ex-wife of Jeff Bezos, the world's wealthiest person). Without her grantmaking, only 9% of all dollars awarded to named recipients was flexible.

The report highlights some of the ways funders are making funding more flexible, beyond simply awarding unrestricted contributions. For example, some funders have extended grant timelines or reporting requirements. And grantmakers have converted previously made project grants to unrestricted grants. The report doesn't capture such actions because its data set primarily consists of new awards.

An ongoing challenge

Nonprofits will hope that funders take to heart one of the report's primary recommendations: that funders do more to support the most vulnerable and that they address both short- and long-term needs. Organizations also should incorporate the report's findings as they plot their fundraising strategies. ■

Size counts

Your midsize or large organization might benefit from a CFO

As a nonprofit leader, you're used to overseeing all aspects of your organization. However, you might think, at times, that having a financial expert run that side of the operation could be a plus. This might be true, but hiring a chief financial officer (CFO) is a weighty decision that can have a large impact on your organization.

Examining CFO duties

Generally, the nonprofit CFO (or "director of finance") is a senior-level position charged with oversight of the organization's accounting and finances. He or she works closely with the executive director, finance committee and treasurer and serves as a business partner to your program heads. The CFO reports to the executive director and board of directors on the organization's finances, analyzes investments and capital, develops budgets, and devises financial strategies.

The CFO's role and responsibilities will vary significantly based on the organization's size, as well as the complexity of its revenue sources. In smaller nonprofits with budgets of $1.5 million to $10 million, CFOs often have wide responsibilities — possibly for accounting, human resources, facilities, legal affairs, administration and IT. Midsize organizations, with budgets running up to $40 million and fairly simple funding and programming, also may require their CFOs to cover such diverse areas.

In larger nonprofits, though, CFOs usually have a narrower focus. They train their attention on accounting and finance issues, including risk management, investments and financial reporting. CFOs of midsize organizations with diverse programs (for instance, several programs that generate revenue) or governmental funding may have a similar focus.

Factoring in your size

Nonprofits with small budgets and straightforward operations probably assign these responsibilities to the executive director or choose a more affordable option. As your organization grows and its financial matters become more complex, though, a CFO can help guide you along.

Experts suggest weighing the following factors when determining whether to bring a CFO on board: 1) size of the organization, 2) complexity and types of revenue sources, 3) number of programs that require

funding and 4) strategic growth plans. Static organizations are less likely to need CFOs than nonprofits with evolving programs and long-term plans that rely on investment growth, financing and major capital expenditures.

Reviewing candidates

With a CFO playing such an essential role, your nonprofit should devote considerable effort and time to hire someone with the right qualifications. At a minimum, you want a person with in-depth knowledge of the finance and accounting rules for nonprofits. A CFO who has only worked in the for-profit sector may find the differences difficult to navigate. Nonprofit CFOs also need a familiarity with funding sources, grant management and, if your nonprofit expends $750,000 or more of federal assistance, single audit requirements.

At a minimum, you want a person with in-depth knowledge of the finance and accounting rules for nonprofits.

What about educational and professional credentials? The ideal candidate should have a certified public accountant (CPA) designation and, optimally, an MBA.

In addition, the position requires strong communication skills, strategic thinking, financial reporting expertise and the creativity to deal with resource restraints. It's useful when CFOs have experience in organizations with a wide range of functions — for example, human resources and IT — so that they can identify when outside professional expertise is vital to the success of their nonprofits.

Finally, you'd probably like your CFO (and every employee, for that matter) to have a genuine passion for your mission. Nothing motivates employees like dedication to the cause. And, in the case of a CFO, this makes it easier to understand that success for a nonprofit isn't only about the bottom line.

The outsourcing alternative

Does your organization lack the size or complexity to warrant having a full-time CFO on staff, but desire the financial peace of mind the position can provide? You might consider outsourcing CFO responsibilities to a CPA firm. Outsourcing can produce several benefits at far less cost.

With outsourcing, you can obtain cost-efficient access to top-notch expertise. Nonprofits often look to their existing staff when filling the CFO position, but your in-house accountant may not possess the requisite financial expertise. Outsourcing will likely cost far less than hiring someone new with the appropriate background. ■

Keep a close eye on restricted contributions

Nonprofits are expected to act as good stewards of all contributions. But restricted contributions, as the name implies, impose a higher level of responsibility. Dropping the ball when it comes to ensuring that such contributions are used as intended can lead to adverse consequences, making detailed and accurate tracking essential.

Why you track

Donors increasingly pay close attention to whether nonprofits strictly adhere to the restrictions on their contributions. Proper tracking of these donations is a vital part of the accountability and transparency that they and other stakeholders prize.

Moreover, donors have been known to sue nonprofits if they believe their restricted contributions have been used for other purposes. Even if they don't pursue litigation, the misuse of funds — fraudulently or not — can generate negative publicity, a drop in donations and potential criminal charges for misappropriation.

How to track

There's no one-size-fits-all approach for tracking restricted contributions. You need to develop and consistently apply well-defined procedures that suit your circumstances.

Generally, you need to train employees to properly identify and label incoming restricted contributions. They should know to pass along the paperwork to the appropriate coworkers to document the restriction and how it will be fulfilled.

Also record all expenditures allocated to a restricted contribution. Do this in a simple spreadsheet or track restricted contributions as individual funds in the general ledger. Also implement a process for regular review to confirm the proper use of restricted funds and, in the event of inadvertent misuse, prompt remediation. Additionally, you'll need a "tickler" system to remind you of any donor-imposed reporting requirements.

Follow the outcomes

In addition to keeping close track of how and when restricted contributions are applied, it's crucial to track the outcomes of such spending. The ability to demonstrate everything that a contribution accomplished can prove powerful in soliciting more contributions from the original donor and others. ■

NEWSBYTES

Recipients of COVID relief could run into surprise audits

The Paycheck Protection Program (PPP), which has offered 100% forgivable loans to eligible organizations, has provided critical support during the pandemic. But *Accounting Today* warns that nonprofit borrowers could unexpectedly find themselves undergoing "single audits" of their compliance with the federal program's requirements. So could organizations that receive assistance under the recent American Rescue Plan Act (ARPA).

The Small Business Administration (SBA), which administers the PPP, has stated that PPP loans won't count toward the $750,000 threshold. However, many PPP borrowers also received SBA COVID-19 Economic Injury Disaster Loans, and those *are* subject to single audit requirements.

Also, the SBA has said it plans to audit any PPP loan greater than $2 million as if the SBA were a federal funding program — suggesting it will apply single audit standards. And the federal Office of Management and Budget, which gives auditors guidance on how to conduct single audits, has directed federal agencies to analyze ARPA-related programs to determine if their risk level requires single audit oversight. ■

How long will it take the nonprofit job market to recover?

The Center for Civil Society Studies (CCSS) at Johns Hopkins University predicts it could take nearly two years for the nonprofit industry to recover pandemic-related job losses. As of January 2021, the nonprofit workforce was down almost 960,000 jobs compared to February 2020 — a 7.7% decline.

Initial job losses (March through May 2020) are estimated at 1.64 million. Based on nonprofit job growth since then, CCSS estimates it will take the sector another 23.6 months to recover the estimated 957,731 job losses remaining as of the end of January. Nonprofit arts and entertainment organizations have seen the greatest job cuts, losing 36.3% of their workers. ■

Hate groups received millions from charities, foundations

The *Chronicle of Philanthropy* has discovered that nonprofits designated as hate groups by the Southern Poverty Law Center (SPLC) have received millions of dollars in grants from donor organizations. As reported on the *Chronicle's* website (philanthropy.com) on February 3, 2021, at least 351 donor organizations have made grants over the past seven years to such groups.

The majority of the donations were made by a small number of donor-advised funds (DAFs) managed by community foundations or commercially affiliated nonprofits, such as Fidelity Charitable. But 280 private foundations also donated to hate groups, a review of IRS records found.

In total, the *Chronicle* reports, the organizations directed $52.8 million to SPLC-designated hate groups through 2018, the most recent year for which the IRS data is available. DAF sponsors were among the most generous donors, contributing a collective $34 million. ■

LAPORTE
CPAs & BUSINESS ADVISORS

111 Veterans Memorial Blvd, Suite 600 | Metairie, LA 70005-3057
504.835.5522 | FAX 504.835.5535

Nonprofit Leaders Share Pandemic Survival Stories with Lessons in Resilience

In the fall of 2020, the LaPorte Nonprofit Industry Group surveyed a representative group of our clients which included regional nonprofit leaders. The intent of the survey was to gain an understanding of how their particular organizations were affected by COVID-19 and what lessons or best practices helped them respond to the challenges.

As a result of the survey, we found that there were common themes of resiliency as organizations learned how to pivot while staying focused on their mission and keeping staff, clients, and donors safe. We heard so many inspiring stories that we invited these regional nonprofit leaders to share their best practices during two separate webinars. A total of eight speakers offered insights into their specific challenges and the steps they took to not only keep moving forward, but also to achieve unanticipated success.

In Part I of the series, panelists touched on:

- Doubling down on your mission
- Benefiting from strategic partnerships
- Importance of communication with your audience
- Embracing flexibility and change

Part II participants shared information on:

- Keeping momentum going
- Meeting clients where they were through readiness and reinventing how the organization saw themselves
- Taking the time to evaluate systems and overhauling what isn't working
- Supporting strategic partnerships and advocacy efforts

Recordings of both presentations can be found at: **bit.ly/LessonsinResilience**

In addition to these eight panelists, there were many others who had unique stories and insights to share such as how they kept their mission front and center with key stakeholders, shifting budgets to address safety protocols, and the importance of leveraging technology in new ways. We're excited to bring these stories to you in our Lessons in Resilience blog. The first in our series is from the STARC of Louisiana, Inc., who faced particular challenges in serving their clients in many environments. Read their story at **http://bit.ly/STARCofLA**

We are proud to help our clients tell the stories that highlight their ingenuity, flexibility, and most of all, their resilience. If your organization has a story to tell and you would like us to feature it in our Lessons in Resilience blog, please email Michele Buckingham (mbuckingham@laporte.com). We would love to highlight your lessons learned so that others can benefit from your valuable experiences.