

“Don’t let your development success become an accounting nightmare”



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Manchester Community
MusicSchool

Welcome!



- **Topics we will cover**

- Groundwork – restricted giving concepts
- Types of gifts
- When to record (or not)
- Gift acceptance policies
- Documentation
- Reconciliations
- Gifts in kind
- Impact of restricted giving on budgets, loan covenants
- Capital campaign – tips and pitfalls – different ways to make the ask
- UPMIFA – what is it and what does it do?
- Who should interact with the auditor?

Who is Here?



- Development personnel
- Board members
- Accountants or bookkeepers
- Other?

Charitable Statistics



- Americans gave more than \$307.75 billion to their favorite causes in 2009 (down 3.6%)
- Individual, bequest and estimated family foundation giving amounted to \$266.61 billion or 88% of total giving
- 8,401 registered nonprofits in NH (as of Nov. 2010 – up from 7,817 in Oct 2008)

Sources: American Association of Fundraising Counsel and National Center for Charitable Statistics

Types of gifts



- Unrestricted (designated)
- Temporarily Restricted
- Permanently Restricted

CAN ONLY COME FROM DONORS!

Examples

Focus on Unrestricted



Is it easier to raise funds for a particular purpose? Consider how you ask...

Annual Fund Giving Guide

The Annual Fund is comprised of the Alumni Fund and the Parents Fund which provides *the School* with critical support for activities on the campus not fully funded through the tuition paid to the School by families. Gifts to the Annual Fund range from \$25 to \$25,000. No matter what the size of the gift, the quality of life at *the School* is enriched through the generous support offered by alumni, parents, grandparents, staff, faculty, trustees, and friends to the Annual Fund.

Choose the Area You'd Like to Support

When giving to the Annual Fund, you may designate your gift and help to underwrite the area at the heart of *the School's* mission that is most important to you. Click on the opportunities below to learn more.

Annual Fund



- One of the many ways you can support *the School* is by making a gift to the Annual Fund. The Annual Fund plays a vital role in ensuring the quality of our educational program, retaining and procuring quality faculty, attracting diverse students, financial aid and scholarships, as well as providing for hundreds of other student- and campus-based needs. The School's Annual Fund follows our fiscal year, from July 1 to June 30. All Annual Fund gifts are unrestricted and will go to the budget relieving area designated by each donor. Any overflow of the gift will go to the School's highest priorities. You can make your gift online with a credit card, mail a check or donate securities. The Annual Fund ends on June 30, 2011.

Pledges (Promises to give)



- Conditional (if, subject to, provided that, when)
- Restrictions vs. conditions
- Intention to give (intend, plan, may, hope)
- Verbal pledges
- Multi-year pledges (recording, discounting)
- Capital campaign pledges – current period activity?
- Matching gifts

Pledges



- “To help prevent violence and victimization of children in our community, we intend to give the Safe Place \$5,000 to support its 2011 activities. (This is an estimate for budgetary purposes only.)”

Donor responses to this solicitation would represent intentions to give, rather than promises to give.

Pledges



- “To help prevent violence and victimization of children in our community, we agree to give the Safe Place \$5,000 to support its 2011 activities.”

Donor responses to this solicitation would represent unconditional promises to give.

In this example, the unconditional promise would be recognized as a temporarily restricted contribution to reflect the donor-imposed time restriction for the subsequent year's operating activities.

HANDOUT



- Exhibit 2-1: Accounting for Promises to Give

Real World Experience



- Manchester Community Music School
 - Leadership Giving Society
 - Corporate Giving Program
 - Raising funds in difficult economic times

GROUP - Example #1



- “As an expression of my desire to support God's work through my church, and to return to God that which belongs to Him, I plan to give regularly during the year and estimate my gifts to average \$200 each month.”

Should this be recorded as revenue?

GROUP - Example #1



- The above faith promise represents an intention to give and not a promise to give to the church.

No revenue would be recorded

GROUP - Example #2



- Michael Richards, a recording artist, promises to donate to the Multiple Sclerosis Society all royalties over \$100,000 from his next CD.

Should this be recorded as revenue?

GROUP - Example #2



- The promise represents a conditional promise since the CD must generate more than \$100,000 in royalties before the Society will receive any contributions. If the CD does not gross over \$100,000 in royalties, the artist is released from his obligation to donate to the Society.

No revenue would be recorded

GROUP - Example #3



- Mark Roberts promises UNH that he will pay \$2,000 on December 31, 2011, and an additional \$500 for each football game that the Wildcats win during the 2012/13 season.

Should this be recorded as revenue?

GROUP - Example #3



- UNH has received an unconditional promise to give \$2,000, which it would recognize at the time the promise was made by Mark, and a conditional promise to give, for which it would recognize a contribution of \$500 each time the University won a football game during the 2012/13 season.

Some revenue recorded – tricky one!

GROUP - Example #4



- The Ellsworth Foundation promises to give Concord Public Library \$25,000 if the library raises \$50,000 from new contribution sources.

Should this be recorded as revenue?

GROUP - Example #4



- The Foundation's promise is conditional until the library raises the additional \$50,000, at which time the Foundation's promise becomes unconditional.

No revenue is recorded

GROUP - Example #5



NPO X

Pledge Card Language

- “I promise to give \$1,000,000 in support of NPO X’s Campaign for a Better Tomorrow. The sum will be paid from my estate and I have included NPO X as a named beneficiary in my will.”

Should this be recorded as revenue?

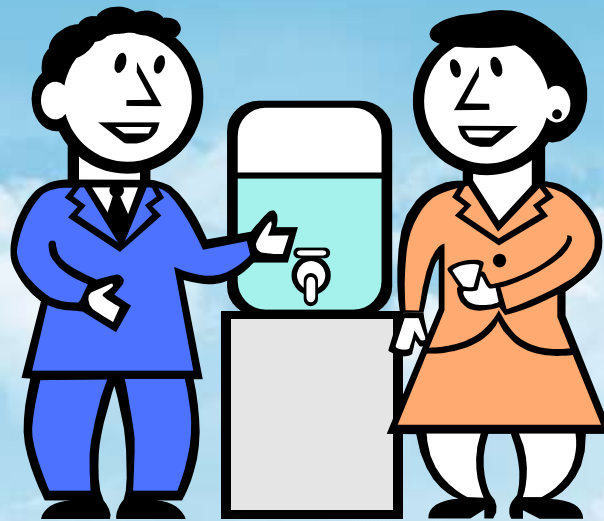
GROUP - Example #5



- Valid promise to give – doesn't matter what the source of funds are...but valuation becomes an issue.

Yes - Revenue/pledge would be recorded

Break



Types of Donor Giving



- Cash
- Marketable securities
- Closely held stock / Partnership interests
- Tangible personal property
- Real estate
- Life insurance
- Charitable Gift Annuity
- Charitable Annuity Trust
- Charitable Unitrust

Types of Donor Giving



- Cash
 - it's hard to say no to cash (control issues)
- Marketable securities
 - Policy that these will be sold immediately?
 - Does the organization have a brokerage firm that can facilitate these gifts?

Types of Donor Giving



- Closely held stock/Partnership interests
 - Is there a market to sell shares?
 - Are there legal restrictions on when it can be sold?
 - Payment on a pledge? How will donor be credited?
 - Unrelated Business Income Tax potential

Types of Donor Giving



- **Tangible Personal Property**
 - Interesting examples??
 - Artwork, jewelry, cars, boats, livestock, furniture, coin collections
 - Is there a market to sell the item?
 - Does donor have liens that need to be cleared?
 - Selling costs?
 - How long will it take to sell?
 - Do you want it or need it?
 - Is it consistent with the organizations mission?
 - Carrying costs?

Types of Donor Giving



- **Real Estate**
 - Market for sale?
 - How will value be determined?
 - Holding costs could be excessive
 - Conservation & façade easements have appeared on the IRS's "Dirty Dozen" list of abusive tax transactions
 - Is the donor giving a complete interest?
 - Is there a mortgage?
 - Can it be used as part of mission? Repairs/improvements?

Types of Donor Giving



- Life insurance
 - Is it legal in your state?
 - Is there a cash surrender value?
 - Is the policy paid up? If not, who will make the payments?
 - Risk of “personal benefit contract” – split dollar insurance policies

Types of Donor Giving



- Charitable Annuity Trust
- Charitable Gift Annuity
 - Assets transferred to NPO in exchange for fixed payments to beneficiary
 - Charitable Annuity Trust – when assets are exhausted payments cease
 - Charitable Gift Annuity – general obligation of the NPO – when assets are exhausted payments continue from unrestricted funds!!

Types of Donor Giving



- **Charitable Unitrusts**

- Assets transferred to NPO in exchange for periodic payments to beneficiary
- Payments are not fixed but based on the Fair Value of the Trust's assets at each annual valuation date
- Charitable lead unitrust – provides payments to the NPO for a defined period then assets are returned to donor/beneficiary
- Charitable remainder unitrust – makes payments to donor/beneficiary for a defined period then remaining assets belong to the NPO.

Types of Donor Giving



Watch for...

- Small distributions from trusts that come every year
- Agency gifts – is your organization really the conduit for the funds, not the recipient

Cultivating Donors



Examples from the Manchester Community
Music School!



Gift Acceptance Policies



How do they help an organization?

- Educate the staff and board about issues triggered by certain kinds of gifts
- Helps to avoid gifts that could cost the organization time and money
- Preparedness with donors – ability to make decisions on the spot
- De-personalizes the nay saying
- Consistency
- Defines the roles of the people that make the decisions

Gift Acceptance Policies



Steps to developing the policy:

- Identify the proper people to participate
- Draft policy and have it reviewed by legal counsel (and CPA)
- Have the Board adopt the policy
- Assemble a group of experts (appraisers, brokers, lawyers, environmental analysts)
- Review policy once per year

Gift Acceptance Policies



Possible Policy items:

- Gifts of property over \$xx must be approved by _____
- All donated securities will be sold immediately
- Bequest received will be considered part of the organization's endowment

Handout



- Sample Gift Acceptance Policies

Reconciliations



- Monthly (more often at first?)
- Include Gifts AND pledges
- Include a reconciliation of documentation

Documentation



- Cash contributions – copy of donor check, copy of donor letter accompanying the check, e-mail from donor explaining gift, acknowledgement letter
- Stock gifts – copy of letter from donor, valued at date of gift – when sold difference recorded as gain/loss on stock sale
- Pledges – signed pledge form, signed letter from donor

HANDOUT



- Appendix 3B: Contribution Documentation Form

Documentation



- Donor Database
 - What do you need to track?
 - How to avoid duplication – who is monitoring?
 - How to fill the pipeline? Family?

Acknowledgement Letters



- Required for contributions of \$250 or more
- Can act as confirmation/clarification of gift terms
- Keep signed original in files
- Should include:
 - Amount of gift
 - Nature of restrictions, if any
 - Time restrictions, if any
 - Payment schedule and/or payments made during the period
 - Amount due

Handout



- Acknowledgement letter example (basic)

Record Retention



- Donation records of endowment funds and of significant restricted funds: **Permanently**
- Donation records, other: **7 years**

Note: Donation records include a written agreement between the donor and the charity with regard to any contribution, an email communication or notes of or recordings of an oral discussion between the charity and the donor where the representative of the charity made representations to the donor with regard to the contribution on which the donor may have relied in making the gift.

Gifts In Kind



- Gifts-in-kind that can be used or sold should be measured at fair value and recognized as contributions when received.
- Gifts of long-lived assets – policy options

Determining the gift's fair value is the tricky part.

Gifts in Kind



Four resources providing guidance on valuing various types of gifts-in-kind are as follows:

- AERDO Gift-in-kind Standards.
- Salvation Army's Donation Valuation Guide.
- TurboTax® ItsDeductible® Software or Book Edition.
- IRS Publication 561, *Determining the Value of Donated Property*.

Capital Campaigns - Tips



1. A capital campaign can be conducted for "bricks and mortar," endowment or special projects needs, such as a major equipment purchase or starting a new program.
2. Most organizations do a planning study (or feasibility study) prior to conducting a campaign in order to help them plan a successful campaign.
3. A capital campaign will require a great deal of time from the Executive Director, Development Staff, and Board of Directors. Often a CEO and CDO will spend 50-75% of their time on the campaign.
4. The three essential ingredients of a successful capital campaign are: a compelling case for support, a strong infrastructure (which includes full board support) and top notch volunteer leadership.
5. Capital campaigns generally involve three to five year pledges from donors. It will be critical to have a software system in place that can handle multi-year pledges.

Capital Campaigns - Tips



6. Capital campaigns should always be worked "from the top down" and "from the inside out." This means the top leadership gifts should be solicited first, and the organization's "insiders"-board, staff and campaign volunteers-must make their campaign gifts first.
7. Capital campaigns are run for a specific period of time, usually 18-24 months for small to medium sized campaigns, longer for larger campaigns. The public phase of the campaign should be as short as possible, because people tire easily of long-running campaigns.
8. At least 60% of the goal should be raised in pledges and gifts before the campaign is announced publicly.
9. Most organizations hire a consultant to manage their campaign because they need the expert advice a consultant can provide. The planning study should always be conducted by an outside consultant.
10. One of the first steps in the campaign should be to appoint a small Steering Committee who will work with architects, construction managers, fundraising consultants, etc. to prepare the organization for the campaign before the Campaign Cabinet is recruited.

Capital Campaigns - Tips



What have you been thinking about at the
Manchester Community Music School?



Capital Campaigns - Pitfalls



- Make sure the “ask” is consistent
- Make sure the campaign material is consistent
- Is purpose of campaign too restrictive? Loan covenants in place?
- Length and frequency

Potpourri



- Changing donor restrictions
- Budgeting for restricted gifts (operating v. cash flow budgets)
- Loan covenants
- UPMIFA
- Who should interact with the auditors
- How to prepare for audit

Questions?



Resources



- CONFR – Council on Fundraising www.confr.org
- NH Center for Nonprofits www.nhnonprofits.org
- Blue Avocado www.blueavocado.org
- Boardsource www.boardsource.org