



HLB North America Tax Conference NFP Update - November 20, 2013

Lynn O'Marra, Esquire





Agenda

- Nonprofit Facts
- IRS 2013 Exempt Organization Workplan
- Major Challenges Facing Nonprofits
- Focus Areas for Nonprofit Board Members
- Executive Succession Planning
- Financial Dashboards



Nonprofit Facts

- One in twelve Americans work in the nonprofit sector
- The charitable deduction is one of the ten largest tax expenditures in the Internal Revenue Code
- There is one nonprofit in America for every 175 Americans (1,565,500 tax-exempt organizations operating in the U.S.)
- Forming a nonprofit audit committee is recommended by both the AICPA and the IRS and provides many benefits to the organization
- Mobile giving is on the rise – 25% of respondents to a new Pew study said they preferred to give via text message



IRS 2013 Exempt Organization Workplan

- Released 1/25/13 – the IRS Exempt Organizations Group (EO) FY 2013 workplan contains descriptions of ongoing and new projects the EO will be concentrating on
- Significant highlights of the 2013 workplan include:
 - Continuing compliance checks on non-filing organizations – automatic loss of exempt status if a 990 series return is not filed for three years
 - EO will be completing 2,500 employment tax examinations in the final year of a three-year national project
 - International activities will continue to be the subject of numerous projects with focus on organizations with high amounts of foreign grant expenditures



IRS 2013 Exempt Organization Workplan – cont.

- As part of the Unrelated Business Income (UBI) project, focus in 2013 has shifted to organizations that have reported substantial gross UBI for three consecutive years but have reported no income tax due
- Several projects have been generated from a long-term study which focuses on data extracted from the Form 990:
 - Two hundred examinations in the area of executive compensation began in 2013 based on 2012 filing information
 - A charitable spending initiative will focus examinations on larger organizations with significant fundraising amounts in comparison to charitable program expenditures and organizations with significant fundraising income with little or no fundraising expense
 - From Form 990 data, some 300 organizations were identified as having indicators of non-compliance in the area of political activity – information is being used to determine if examinations are warranted



Major Challenges Facing Nonprofits

Information taken from a number of regional and national studies concerning the challenges facing nonprofits indicates that several issues are shared concerns for most nonprofit leaders

- Areas of the most pressing needs as indicated by nonprofit leaders include:
 - Board development – most frequent concern was building an active and strategically oriented board of directors
 - Information management – utilizing effective information management for measuring and evaluating operations and programs
 - Marketing/fundraising – a high priority included developing effective marketing programs to recruit and retain donors



Major Challenges Facing Nonprofits – cont.

- Human resources – critical concerns in ability to attract, develop and retain productive staff and volunteers
- Collaboration – pursuing constructive alliances, partnerships and mergers

Several changes in the operating environment of the nonprofit sector are also impacting leaders' perceptions of the issues facing them

Major external challenges include:

- Funding challenges
- Accountability pressures
- Collaboration fascination



Focus Areas for Nonprofit Board Members

- Regardless of an organization's size and scope, nonprofit boards play a vital role in the overall success of the organization
- There are several key factors nonprofit boards should be focused on in 2013/2014:
 - Executive compensation
 - Risk assessment
 - U.S. debt reduction debate



Focus Areas for Nonprofit Board Members – cont.

Executive Compensation

- Expanded disclosures about nonprofit executive compensation practices are publicly available through the Form 990
- Best practices dictate that an organization have a process in place for determining the compensation of the CEO, officers and key employees
- Process should include review and approval by an individual independent of the process, utilization of comparability data, and documentation of the deliberations and decisions that are made to substantiate the compensation provided
- Board members should know how the organization answers questions about executive compensation on its Form 990



Focus Areas for Nonprofit Board Members – cont.

Risk Assessment

- As a board member – how comfortable are you that management has critically assessed the risks the organization faces?
- A comprehensive risk assessment includes identifying risks, evaluating the likelihood and severity of the risk and the steps taken to mitigate risks identified
- Risks to be considered should include financial and compliance risks, and reputational risks
- Once risks are identified and an assessment is made as to likelihood and severity, the board should ensure that management has a plan for addressing the high threat/high impact risks to the greatest degree possible



Focus Areas for Nonprofit Board Members – cont.

U.S. Debt Reduction Debate

- In spite of last minute legislative actions to avoid the fiscal cliff issue, there is still much uncertainty over reducing the size of the U.S. debt and the impact upon government spending
- Nonprofits are likely to be impacted by decreased government spending on discretionary programs which will likely increase demand on the nonprofit sector's resources and programs
- Tax reform that impacts charitable deductions may also reduce contribution revenue
- Board members should ensure that management is focused on these potential challenges and considering ways to mitigate these risks



Executive Succession Planning

Succession Planning Basics:

- A process to assure timely and effective continuity of organizational leadership – planning for a smooth transition, the unexpected, the worst case scenario
- Succession planning is the responsibility of the Board and the Executive Director
- It assures continuity of leadership
- Leadership transitions are inevitable



Executive Succession Planning – cont.

Why is this vital for your organization's future?

- 67% of nonprofit executives anticipate leaving within five years
- 33% of current executives followed a leader who was fired or forced to resign
- 40% of executive transitions fail within the first 18 months
- Only 17% of nonprofits have a documented succession plan

(Based on a survey of nonprofits)



Executive Succession Planning – cont.

Transition pitfalls:

- **Lack of documentation** – required paperwork to continue work of organization must be in order and accessible
- **Grooming the successor** – Board and executive must be in agreement on succession (inside candidate or outside search)
- **Rushing the transition** – take time to clarify strengths, opportunities and strategic directions along with skills and experience needed in new executive
- **Not paying attention to staff** – involve staff and keep them informed during the process
- **Ignoring outgoing executive's role** – balance need to keep ongoing executive informed and involved with board's responsibility to step up and manage transition



Executive Succession Planning – cont.

Always have an emergency succession plan!



Financial Dashboards

- Management needs a timely mechanism for evaluating high level key information in order to make informed decisions impacting the organization
- This summary report of key performance indicators is called a “dashboard” in the for-profit world
- The dashboard report summarizes key financial data, sets benchmarks for the organization and allows users to quickly view their performance
- This process also provides an idea of how well the organization compares against goals and expectations set by management and the board



Financial Dashboards – cont.

- Dashboards may come in a variety of formats – as a guiding rule, the dashboard should be based on a combination of financial data and industry benchmarks
- In setting the organization’s benchmarks, first determine how the organization is evaluated by others (funding sources, lenders, trade associations, etc.)
- Use goals which have been set by the organization to achieve (staff productivity, working capital, staffing ratios, etc.) as the standards to benchmark performance against
- Dashboards can also include program specific performance such as outcome levels and productivity
- The process for developing the dashboard must be a partnership between management and the board



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