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NFP ADVISOR

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Innovate, Inspire & Include

BRINGING A UNIQUE UNDERSTANDING OF KEY ISSUES FACING NOT-FOR-PROFIT ORGANIZATIONS

FROM THE EDITOR - MATTHEW BURKE, CPA, CFE

CERINI & ASSOCIATES LLP
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It's been six months since we last shared our thoughts in the *NFP Advisor*, and a lot has transpired. We're moving further away from the dark days of COVID and business is returning to some form of normalcy for nonprofit organizations. The economy has seemingly settled down (*though growth is still sluggish*), interest rates may still be creeping higher but not at the record pace they were, the stock market has been strong, and the sun still rises. There is cautious optimism that the sector has turned a corner. This issue of the NFP Advisor runs the gamut, focusing mainly on long-range planning subjects for nonprofit leaders, but also providing some timely reminders that should be considered immediately.

We start with a nonprofit buzz word, collaboration. We examine several ways that nonprofits can improve their operations and impact through successful and creative collaboration with other nonprofit organizations. Nonprofits are stronger together, and we'll explain why.

We then turn our attention to succession planning, an issue that is often ignored by businesses of all shapes and sizes, including nonprofits, but one that has never been more relevant given the demographics and challenges facing the industry. We've outlined some ways to develop and maintain effective succession plans to help ensure your organization's continuity for generations to come.

With many government funded agencies required to complete their tri-annual indirect cost rates over the next few months, we included information regarding the audit certification process of these rates.

In an effort to continue to educate and provide useful feedback to board members leading the nonprofit sector, we have summarized multiple topics to help board members understand and excel in their roles. Board members are frequently thrust into their positions without proper education, context, and expectations. We're here to help fill in any gaps.

Lastly, we end with what is hopefully one of the last times we will need to mention COVID in these pages. **Employee Retention Tax Credits (ERTC)** remain a hot-button topic and opportunity for many organizations to bolster their budgets with federal dollars that were intended to assist in retaining employees and offsetting lost revenues as a result of COVID closures and disruptions. Don't leave money on the table and review this content carefully.

Keep in touch with us this Spring and Summer as we endeavor to contribute to the nonprofit sector outside of pure accounting. We're CPAs, but we're also nonprofit experts. Join us each month for *the Cerini Connection*, a webinar series hosted by our founder and Managing Partner, Ken Cerini. The series deals with a spectrum of issues impacting the nonprofit sector. And don't miss the 11th Annual Long Island Imagine Awards on Tuesday, April 25, where we bring the sector and its partners together to celebrate the greatness and impacts of Long Island nonprofits and leaders. As always, if there's anything we can provide assistance with, we're only a call or email away.

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NONPROFIT COLLABORATION

Collaboration is a powerful tool that can help nonprofit organizations achieve their goals and make a real impact in the communities they serve. Nonprofits that collaborate effectively can share resources, knowledge, and expertise, and build strong relationships with other organizations and stakeholders.

Here are some reasons why collaboration is important with other nonprofit organizations:

1. LEVERAGING RESOURCES:

Collaborating with other organizations can help nonprofits access resources that they may not have on their own. For example, one organization may have expertise in fundraising, while another may have connections with local businesses. By working together, they can leverage their strengths to achieve common goals.

2. IMPROVED SERVICE DELIVERY:

Collaboration allows nonprofits to deliver more comprehensive services to their beneficiaries. By partnering with other organizations, nonprofits can offer a wider range of programs and services, as well as improve the quality of those services.

3. INCREASED IMPACT:

Collaboration can amplify the impact of nonprofit organizations. By working together, nonprofits can pool their resources and expertise, and tackle complex social issues that may be beyond the scope of a single organization.

4. INCREASED FUNDING OPPORTUNITIES:

Collaborating with other nonprofits can increase funding opportunities for several reasons. For one, funders may be more likely to support collaborative efforts that involve multiple organizations working together towards a common goal. By demonstrating their ability to collaborate effectively, nonprofits can also attract new funders who are looking to support organizations that are making a real impact in their communities.

So, how can nonprofits effectively collaborate?
Here are some tips:

1. IDENTIFY COMMON GOALS:

Before collaborating with other organizations, nonprofits should identify their common goals and areas of interest. This can help ensure that the collaboration is mutually beneficial and focused on achieving shared objectives. Do your due diligence and make sure you are choosing the right partner who have the same values and standards your organization does.

2. BUILD STRONG RELATIONSHIPS:

Collaboration is built on trust and strong relationships. Nonprofits should take the time to build relationships with potential collaborators, and be open and transparent about their goals and capabilities.

3. SHARE RESOURCES:

Collaboration involves sharing resources, whether it's funding, expertise, or staff. Nonprofits should be prepared to contribute their own resources, as well as be receptive to the resources that others bring to the table.

4. COMMUNICATE EFFECTIVELY:

Clear and open communication is essential for effective collaboration. Nonprofits should establish regular communication channels with their collaborators, and be prepared to provide regular updates on their progress.

5. EVALUATE AND LEARN:

Nonprofits should evaluate the success of their collaborations, and use the insights gained to improve their future collaborations. By learning from their experiences, nonprofits can refine their collaboration strategies and improve their impact.

6. FORMALIZE THE PROCESS:

If you are developing integrated collaboration, you will need to ensure a collaboration agreement is in place that outlines the responsibilities and commitments of both partners. This is essential to avoid issues and conflicts later.

In conclusion, collaboration is a powerful tool that can help nonprofits achieve their goals and make a real impact in their communities. By building strong relationships, sharing resources, and communicating effectively, nonprofits can collaborate effectively and achieve their shared objectives.

MAHNAZ CAVALLUZZI, CPA
MANAGER

SUCCESSION **PLANNING**

Succession planning is an essential process for any business, including non-profit organizations. It is the process of identifying and developing internal talent to fill key leadership positions when they become vacant due to retirement, resignation, or any other reason. Succession planning helps to ensure that the organization can continue to operate effectively and efficiently even when there is a change in leadership. In this article, we will discuss the importance of succession planning for non-profit organizations and provide some practical tips for developing a succession plan.

WHY IS SUCCESSION PLANNING IMPORTANT FOR NON-PROFIT ORGANIZATIONS?

Non-profit organizations rely heavily on their leadership to achieve their goals and objectives. Leaders provide direction, vision, and motivation for staff and volunteers, and they are responsible for ensuring that the organization's mission is fulfilled. When a key leader leaves, it can be challenging for the organization to maintain its momentum and continue to deliver its programs and services. Succession planning can help to mitigate these risks and ensure that the organization can continue to operate effectively even in the absence of a key leader.

Succession planning can also help to ensure that the organization is prepared for the future. By identifying and developing internal talent, the organization can build a pipeline of future leaders who are ready to step into key roles when the time comes. This can help to ensure that the organization is not caught off guard by unexpected departures and can continue to operate smoothly and effectively over the long term.

Succession planning also helps to promote continuity and stability within the organization. When leadership transitions are handled smoothly and effectively, staff and volunteers are more likely to feel secure and confident in the organization's future. This can help to reduce turnover and ensure that the organization can continue to attract and retain the talent it needs to achieve its goals.

PRACTICAL TIPS FOR DEVELOPING A SUCCESSION PLAN

Developing a succession plan can seem like a daunting task, especially for non-profit organizations with limited resources. However, there are some practical steps that organizations can take to develop a succession plan that is tailored to their needs and resources.

Identify key leadership positions:

The first step in developing a succession plan is to identify the key leadership positions within the organization. This may include executive directors, program directors, and board members. Once these positions have been identified, the organization can begin to develop a plan for how to fill these positions when they become vacant.
Assess current talent: The next step is to assess the organization's current talent pool. This may involve conducting a skills inventory of existing staff and volunteers to identify individuals who have the potential to fill key leadership positions in the future. It may also involve identifying gaps in the organization's talent pool and developing strategies for filling these gaps through recruitment or training. If current talent is lacking, consider seeking help from outside sources to identify potential candidates. Working closely with professional recruiting firms has become more of the norm lately.

Develop a training and development plan:

Once potential successors have been identified, the organization can begin to develop a training and development plan to help them build the skills and knowledge they need to be effective leaders. This may involve providing leadership training, mentoring, coaching, and other forms of professional development.

Create a transition plan:

In addition to developing a plan for developing future leaders, the organization should also develop a plan for managing leadership transitions. This may include identifying interim leaders who can step in when key leaders depart unexpectedly, developing a communication plan for staff and stakeholders, and establishing a timeline for leadership transitions. Unfortunately, more often than not, succession is forced on organizations due to unplanned turnover. Having contingency plans in place and pre-selected interim replacements lined up will allow organizations to say afloat as they search for permanent replacements.

Review and update the plan regularly:

Finally, it is important to review and update the succession plan regularly to ensure that it remains relevant and effective. This may involve revising the plan as new leadership positions are created or as the organization's needs change over time. Succession planning is not a one-time event, but rather an ongoing process. As such, non-profit organizations should make sure to regularly review and update their succession plans to ensure that they remain relevant and effective. Additionally, organizations should communicate their succession plan to key stakeholders, including staff, volunteers, and donors, to promote transparency and build trust.

IN SUMMARY

With the current generation of non-profit leadership approaching or entering retirement years, it's critical that organizations begin to consider succession sooner rather than later. Succession planning cannot be overlooked. By identifying and developing internal talent, non-profit organizations can ensure that they are prepared for the future and can continue to fulfill their missions well into the future. While certainly challenging, developing succession plans is a fulfilling process that protects organizations in so many ways. Non-profit organizations that invest the time and resources into developing a succession plan now are more likely to achieve their mission and goals over the long term.

MATTHEW BURKE, CPA, CFE
PARTNER

REGULATION REGARDING
INDIRECT COST AUDITS

PROPOSALS AND COST ALLOCATION PLANS IN THE LIGHT OF AUDITOR'S INDEPENDENCE REQUIREMENTS.

The Government Accountability Office (GAO), on January 25, 2002, issued an amendment to Government Auditing Standards (*1994 revision*), Amendment No. 3, Independence, which substantially changed the previous standard to better serve the public interest and to maintain a high degree of integrity, objectivity, and independence for audits. The most significant changes included in this amendment, related to the standards associated with non-audit, or consulting services. Auditors have the capability of performing a range of services for their clients if they do not violate the principles of independence and comply with the required safeguards.

Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book (*guidelines for audits created by the Comptroller General and the audit agency of the U.S. Congress, GOA*), recognize that non-audit services are provided by audit organizations and that certain steps needs to be taken to avoid situations that can impair auditor independence, either in fact or appearance, to provide financial audits, attestations engagements, or performance audits in accordance with GAGAS. Even so, there are some circumstances where it is not appropriate for the audit firm to perform both audit and selected non-audit services for the same client. In these circumstances, the auditor and the auditee will have to make a choice as to which of these services the audit firm will provide.

THE PREPARATION OF AN INDIRECT COST PROPOSAL FOR CLIENTS IS LISTED AS A NON-AUDIT SERVICE.
CAN AUDITOR BE ENGAGED TO PERFORM AN AUDIT AND BE SELECTED TO PREPARE AN INDIRECT COST RATE PROPOSAL FOR THE SAME CLIENTS?

Uniform Guidance (*2 C.F.R. Part 200*) establishes uniform administrative requirements, cost principles, and audit requirements for Federal awards to non-Federal entities. The 2 CFR § 200.509 (*Auditor selection*) very specifically addresses the limitation for this non-audit service. The auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit required by this part when the indirect costs recovered by the auditee during the prior year exceeded $1 million. This restriction applies to the base year used in the preparation of the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs.

The auditor performing an audit can still provide the non-audit service of preparing the indirect cost proposal or cost allocation plan only if both conditions are met:

- *indirect costs recovered by the auditee during the prior year did not exceed $1 million as described in 2 CFR & 200.509; and*
- *management has taken responsibility for all significant assumptions and data used in preparation of such document and auditor complied with required safeguards.*

If the above conditions are not met, the auditor cannot be selected to prepare the indirect cost proposal or cost allocation plan and the service should be provided by another CPA or qualified professional.

IWONA SORNAT, CPA
MANAGER

TIPS FOR EFFECTIVE BOARD LEADERSHIP

Building a strong non-profit organization requires effective leadership, starting with the board of directors. The board of directors is tasked with providing strategic direction to the organization and ensuring the organization is operating in accordance with its mission. Board members are also ambassadors for the organization, helping to enhance the organization's public standing, advocate for, and promote awareness of the organization and its mission.

Attracting board members who actively participate, make meaningful contributions to meetings, and drive the organization forward can be a challenge. The board should be comprised of individuals with diverse backgrounds who are suited to promoting and advancing the organization's mission. Board members who are experienced with and understand the programs, constituents, and communities that your organization serves can provide unique insight that will assist with effective decision-making. Interviewing board members as part of the on-boarding process can ensure members are a good fit for your organization.

Once board members are selected, provide them with an on-boarding package that includes past meeting minutes, the organization's governing documents (*including by-laws and the certificate of incorporation*), board policies, and past and current financial information (*budgets, tax/informational returns, financial statements, interim financial data*) to ensure they are up to speed on the inner workings of the organization and can effectively carry out their duties. Consider creating formal board agreements with members that outline term limits, legal duties to the organization, board committee structure, and other relevant policies of the organization and the board. Memorializing the member's commitments within a formal agreement can promote more active involvement and compliance with requirements throughout their tenure as a board member.

To ensure board members remain energized and passionate in their involvement, consider inviting program staff or constituents to speak during board meetings regarding the organization's mission, achievements, and impact. Board members should be encouraged to identify with and actively participate in the organization's work, including attending events, volunteering, and advocating for the organization in their community.

The size of the board of directors is an important component of board structure to consider when building an effective board. There is no set standard for board size, but there are factors that should be considered when determining the appropriate size for your organization. Boards should be large enough to ensure that, collectively, its members have the required skill and expertise to make informed decisions and drive conversation. If a board is too large, however, it may be difficult to reach consensus and keep the meetings moving forward efficiently.

Establishing a committee structure within the board can provide direction and focus to individual members, and ensure necessary initiatives are being carried out. Key committees can include a finance committee (*to analyze fiscal performance*), compensation committee (*to evaluate compensation of key management*), audit committee (*to oversee annual audit process*), nominating committee (*to seek potential members and handle succession planning*), compliance committee (*to monitor ongoing compliance issues*), board governance committee (*to review governing documents and policies*), and development committee (*to assist with fundraising*). Specific business matters can be discussed in detail at the committee level and then be brought to the full board for approval, which can streamline the board's operations during meetings.

Board meetings should be structured to be effective and interactive, ensuring active engagement throughout the entire meeting. An ideal meeting would be an hour to an hour and a half in length. Creating detailed consent agendas with proposed resolutions, prioritizing tasks to be discussed at the committee level versus the board level, and providing reference documentation in advance of the meeting will ensure members are prepared to have intelligent and efficient discussions.

Board members should be presented with timely fiscal information regarding the organization's financial position, operations, and cash flows on a regular basis from the management team. Information provided should be as of a date, or for a period, no more than a few months prior to the date you are reviewing the information. Stale fiscal information is less useful because it does not enable you, as a board member, to make timely and relevant decisions based on that information. Budget to actual reporting with variance explanations and various trend analyses, ratios, and calculations should be performed using this fiscal information to provide insight into the fiscal health of the organization. Fiscal analyses can include measures of working capital, current ratio, quick ratio, days in cash, days in receivables, debt-to-assets, trends in net assets, calculation of expendable net assets, program spending trends, concentrations of revenue, fundraising event profitability, budget-to-actual performance, and program service percentage calculations. Falling short of healthy benchmarks should spark inquiries of management regarding the cause for negative trends and plans to address these trends. Overall, these analyses promote intelligent communication and informed decision-making during meetings to fulfill your fiduciary duty.

The purpose of board meetings is to provide strategic direction to the organization. Strategic planning should occur formally every few years but should also be integrated into regular meetings. Strategic planning starts with evaluating internal and external factors impacting the organization's strengths, weaknesses, opportunities for improvements, and threats. Once you understand where you are as an organization, and your role in the community, then you can better understand the direction you want to move towards. Key growth areas should be identified and prioritized. You should also evaluate the resources required to create growth, and whether those resources are available or attainable. Identifying clear and measurable goals for the organization, timeframes for goals, responsible individuals to oversee progress, and creating systems to monitor progress towards goals, are essential to ensuring that strategic planning efforts will create actual growth and change within the organization over time. As old goals are achieved, new goals should be identified, to keep the process dynamic.

Strategic planning should also incorporate proactive, rather than reactive, succession planning. Succession planning addresses how operations will continue if key members of management or the board leave the organization. Key steps involve assessing what vacancies need to be addressed, creating a vision for the succession plan, cultivating talent internally, sourcing talent externally (*if needed*), and properly acclimating new individuals into the organization in the event of a transition. Maintaining open lines of communication between management and the board and establishing formal plans before they are needed is crucial to ensuring smooth transition when turnover occurs.

To be an effective board member, it is critical to have a clear understanding of your fiduciary and legal responsibilities, as well as your organization's mission, programs, goals, and fiscal health. Attracting and retaining appropriate talent and structuring the board effectively are the building blocks to effective board leadership. However, be sure that you are provided with accurate and timely information you can use in your decision-making process. Ensure proceedings of board meetings are relevant and addresses the unique goals and strategic plans of your organization. With these tools, you will be poised to succeed in building and maintaining strong and effective board leadership, and in turn, a strong organization.

LAUREN GRANDINETTI
SUPERVISOR

EMPLOYEE RETENTION TAX CREDIT – TIME IS RUNNING OUT

One of the first relief plans issued by the federal government as part of the CARES Act was the employee retention tax credit or ERTC. Since it was initially released during 2020, there have been many changes to the credit that have made it a bit more accessible for nonprofits and business owners. Even so, we are still receiving questions regarding the credit and who is eligible for it, especially since there has been so much advertising and controversy surrounding it. If you listen to any of the NY based news radio stations, you will hear advertisements for credits of up to $26,000 per employee… *this is the ERTC.*

There were 2 phases of ERTC, the 2020 version and the 2021 version… and they were very different as outlined in the chart below:

	2020	2021
ELIGIBILITY[1]	Less than 100 full time employees (*if you exceed the threshold, you are only eligible for wages or health benefits paid to employees that did not work*)	Same as 2020, except the threshold was increased to 300 employees
DECLINE IN REVENUE THRESHOLD	50% deline in revenue in a calendar quarter compared to the same calendar quarter of 2019 (*excluding other CARES Act funding*), calculated on the same basis as you file your tax return (*cash verse accrual*). The credit stays in effect until the revenue is less than 20% down in a quarter	Same as 2020, except the revenue decline threshold in a quarter is 20%
OTHER ELIGIBILITY[1]	A material decline in operations brought about by a governemnt regulation attributable to the COVID pandemic (*e.g. inability to open*). OSHA regulations that were in effect pre-COVID or curtailment in operations due to an incident of someone getting COVID does not qualify	Same as 2020, except there were a lot less regulations still in effect so it will be more difficult to meet this threshold in 2021
SAFE HARBOR	If you meet the revenue threshold requirement for a quarter, you qualify for the credit in the next quarter	Same as 2020. In addition, if the revenue is down 20% or more in the 4th quarter of 2020, you qualify for the 1st quarter of 2021
AMOUNT OF CREDIT	50% of employee qualified compensation and health benefits up to a maximum of $10,000 of health benefits and salary for the year (*maximum credit is $5,000 for the year*)	70% of employee qualified compensation and health benefits up to a maximum of $10,000 of health benefits and salary for each qualifying quarter (*maximum credit is $7,000 per credit*)
EXPIRATION OF CREDIT	3 years from the date your payroll tax was originally due (*July 31, 2023 for the 2nd quarter of 2020*)	Same as 2020
HOW TO FILE	Form 941X	Form 941X

[1]Full-Time employees represent employees that work 30 hours a week or more. If employees work less than 30 hours, they are not included in the count.

The ERTC is taxable and cannot be claimed for the same wages that you filed for PPP for. This does not mean that if you filed for PPP for a quarter, you can't file for ERTC for the same quarter and same employees, you just can't use the same expenses for both. In addition, if you received any other deficit funding for particular salaries, such as a government grant, you have to make sure you consider this in your application.

Furthermore, there has been a lot of abuse surrounding the ERTC filings, so the IRS will be auditing ERTC filings for appropriateness, so it is important that you maintain strong documentation as to why you qualify, how you calculated qualified compensation, and that you properly considered other funding.

Also keep in mind that, as discussed above, the ERTC, unlike the PPP, is subject to income tax and is taxable in the year the credit is taken for. So if you are a December 31st taxpayer, you will need to file an amended 2020 return for any credits you received in 2020 and an amended 2021 return for any credits received in 2021.

The ERTC regulations are somewhat complex, but we can help you navigate the these credits… but keep in mind that the credits do start to expire by July 31, 2023.

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