



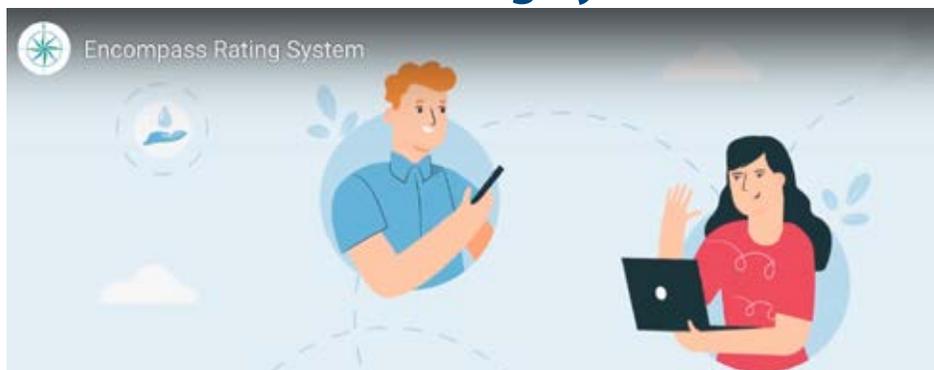
# NON PROFIT GPS

HELPING TO KEEP YOU ON THE RIGHT ROAD



## Charity Navigator Introduces Encompass—Its New Charities Rating System

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Charity Navigator has been rating charities for almost two decades and now they have modernized, automated, and renamed their system to *Encompass*.

Currently in beta, the number of charities rated has already increased from 9,000 to over 150,000.

The old system would only consider charities that submitted annual filings for over a period of seven years and reported over \$1 million in revenue. The new system doesn't have a minimum dollar amount and only requires three years of filings. The system is evolving and, when completed, it will provide a 0-100 rating in each of four areas: finance and accountability; impact and results; leadership and adaptability; and culture and community. Only the first metric, finance and accountability, is operational as this article is being written.

### The finance and accountability score will be based on the following:

1. The ratio of program expenses to total expenses (25 points).
2. Organizations with \$1,000,000 or more in support/revenue are expected to have an audit, those with \$250,000 or more are expected to have a review (25 points). This metric doesn't apply to organizations with under \$250,000 in support.

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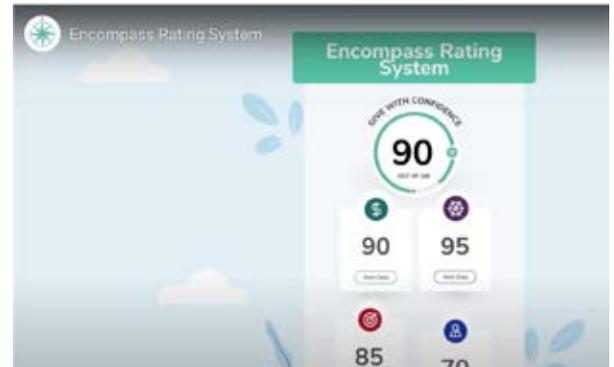
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3. Board composition: Three or more independent board members is worth 25 points.
4. The ratio of liabilities to assets is worth up to 15 points.
5. The organization's website must be listed on its 990 (10 points).

Charity Navigator says they use "technology-supported automation" to gather data. This allows them to gather a lot more information with a lot less human intervention. However, there could certainly be some misinterpretations or a lack of analysis by doing things this way. For example, we are reminded of a client using 100% volunteer service to do extensive, amazing things in their community but their only employee was a bookkeeper/office manager—an automatic 25 point loss! Be sure to check whether your charity has been rated and make sure the rating is reasonable, or reach out to Charity Navigator and/or your constituents with clarification.



## Did You Receive an Improper Auto-revocation Notice?

The IRS acknowledged it has sent out improper auto-revocation notices this year.

Auto-revocation happens when an organization fails to file an annual return for three consecutive years.

Your 2019 calendar year annual filings, which normally would have been due by May 15, 2020, were automatically extended to July 15, 2020. However, the IRS was unable to update its system properly and automatically sent out auto-revocation notices to charities that were delinquent by two years and did not file by May 15, 2020.

Additionally, IRS has been woefully behind with paperwork; as a result, organizations that submitted paper annual filings may also be treated as delinquent.

They have set up a fax line to correspond with charities that received an improper auto-revocation notice. The number is 855-247-6123.

The IRS has not acknowledged that returns filed beyond the original due date or filed manually (regardless of prior delinquencies) might result in late filing penalties. If you believe you did file in a timely manner but received a late filing penalty, you should contact them.

## IRS Strategic Focus on Nonprofits for 2021

The IRS has routinely shared their nonprofit workplan for the coming year. Like a police car on the side of the highway, satisfied to slow down many cars, rather than ticket one speeder, the IRS believes it is more efficient and effective to let all nonprofits know they are looking for certain violations.

In past years, they provided a lengthy list of issues important to them. This year's list is shorter and more generic.

It is not surprising they intend to use more technology and data analytics to try to identify potential noncompliance. For the past several years, the 990 and 990EZ include several governance questions that may prompt IRS to either send a request for further information, or to initiate an audit.

They will also do some checking of 1023EZ and 990N filings to verify they were properly completed.

The IRS will continue to push for electronic filing of all nonprofit organizations' annual filings and stated they will be scrutinizing abusive syndicated conservation easements and abusive charitable remainder annuity trusts.

Finally, they noted they will continue to increase their communications and attempt to increase voluntary compliance through their Small Entity Compliance Initiative.

## PPP Loan Forgiveness

We don't have all of the answers yet for PPP loan forgiveness, but there are a few key things we do know at this point.

They include:

- SBA confirms that you can apply for forgiveness any time up until the maturity date of the loan, but you will need to start paying on your loan 10 months after the period of forgiveness of your loan.
- If the loan did not exceed \$50,000, the forgiveness process has been simplified (more detail later in this article). Specifically, the proof you need to provide about costs incurred is reduced.
- Some banks use their own forms, but they are very similar to the forms identified in this article. If your bank is not ready to process forgiveness, don't feel any sense of urgency; they will be in the coming weeks.

Use your browser to search for the following forms and instructions:

- SBA form 3508S for forgiveness of loans that don't exceed \$50,000.
- SBA form 3508 for forgiveness of loans that exceed \$50,000.
- SBA loan application forgiveness instructions for instructions on completing the forms.

The new simplified rules for loans not exceeding \$50,000 state there is no reduction of loan forgiveness for reduction of the number of full-time employees or their pay.

For loans that do exceed \$50,000, forgiveness will be reduced where the number of employees or their pay have been reduced. Employees working 40 hours or more are considered to be a full-time equivalent (FTE). Employees working less than that will have their weekly hours divided by 40 to determine full-time equivalency. Alternatively, all employees with under 40 hours can be treated as one half of a full-time equivalent. Try both ways to see which is most beneficial.

You need to compare hours and pay during the 8- or 24-week forgiveness timeframe, with the hours and pay during the "look back period (either February 15, through June 30, 2019, or January 1, through February 29, 2020)." You get to choose the "look back period," so calculate whether one provides a better result than the other.

There are exceptions to the penalty for reduction in FTEs. Borrowers who can document an inability to rehire individuals or restore hours; and an inability to hire similarly qualified employees should not be penalized for reducing FTEs.

Borrowers who are unable to return to their prior level of activity between February 15, 2020 and the end of the covered period because of guidance issued by any government agencies will not be penalized.

Similarly, even if FTEs were reduced in the payroll period beginning February 15, 2020 and ending April 26, 2020, but restored with equivalent pay by the earlier of December 31, 2020, or the date of their application for forgiveness, the penalty won't apply.

At least 60% of the forgivable eligible costs must be payroll (gross pay plus payroll taxes and benefits up to a \$100,000 limit per person). The remaining 40% can be composed of mortgage interest, rent, utilities, and interest on loans that were in place before February 15, 2020.

Both payroll and non-payroll costs need to be paid during the 8- or 24-week timeframe you select, or at least incurred (earned) during that timeframe and paid shortly thereafter.

Finally, some tips to make the forgiveness process much easier!

- If you can cover the entire amount of the forgiveness with payroll (not including payroll taxes), the application is much simpler. The extension from 8 weeks to 24 weeks makes this much more likely.
- Does anyone receive compensation over \$100,000? If so, see if you can justify the total forgiveness without including them. Your calculation will be easier.
- Lastly, most of the third-party payroll processors can provide reports that contain the information you need to document forgiveness.

Of course, one article cannot answer all of your questions! Put "PPP loan frequently asked forgiveness questions" into your browser for a list of common questions and answers. You are always welcome to call or email us for assistance as well.

## 2020 Uniform Guidance Updates

Uniform Guidance has been updated, effective November 12, 2020. Several sections have new rules, revised amounts, new terminology and some clarifications.

The most significant changes include the following:

- Certain new sections (§200.211 & §200.301) indicate that, where applicable, federal awards should include performance goals and targets. Awarding agencies should measure performance to show achievement of goals and objectives.

We will need to see whether, and how, this affects individual grants.

- Procurement Thresholds: The micro-purchase threshold has been increased to \$10,000 and the simplified acquisition threshold has been increased to \$250,000. In addition, grantees with "clean audits" can elect to increase the threshold to \$50,000. This election is annual (§200.320). Micro-purchases do not require any competitive process.
- The optional 10% de minimis indirect cost rate was previously available only

to organizations that had not previously negotiated an indirect cost rate. Now it is available to any organization that does not currently have an approved indirect cost rate.

Organizations that pass funds through to sub-recipients must recognize the sub-recipients' approved indirect cost rate; but if none exists, the pass-through entity must work with the sub-recipient to determine an appropriate indirect cost rate.



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**WEBSTAR**

This Month's WebStar Winner Is:

**Genesee Valley Conservancy,**  
[geneseevalleyconservancy.org](http://geneseevalleyconservancy.org)

Benjamin Gajewski, Executive Director of the Genesee Valley Conservancy, reached out to us to share recent updates to their website.

He explained their goal was to have a fully mobile site viewable on any device to make navigation as straightforward as possible, and to eliminate unnecessary content so visitors can learn about the organization quickly.

We agree, their website is a great example and particularly valuable in this time of social distancing. Please visit [geneseevalleyconservancy.org](http://geneseevalleyconservancy.org) to check it out.



"The primary goal was to switch to a fully mobile site since most of our traffic is coming in that way and we need the site to be effective no matter how you view it," said Ben.

In addition to updated functionality, they also took the opportunity to make the navigation as straightforward as possible, cut down any unnecessary content, and make sure visitors can learn about the Genesee Valley Conservancy in a quick manner.