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260 Plymouth Avenue South
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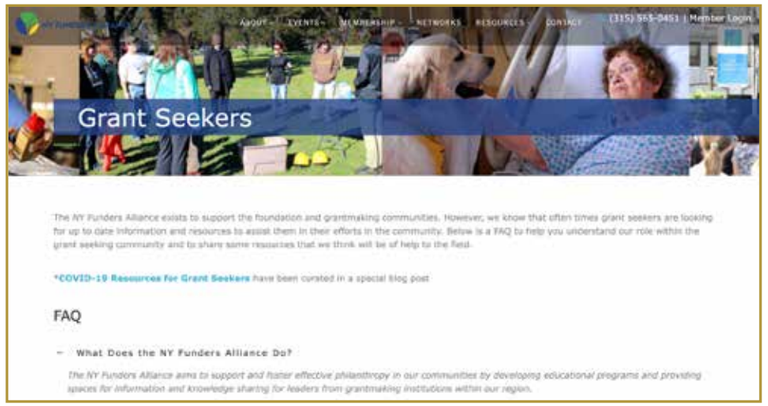
NON PROFITGPS

HELPING TO KEEP YOU ON THE RIGHT ROAD

Published by Heveron & Company CPAs

The New York Funders Alliance has resources for grant seekers, including access to their online directory and common grant application form, resources for grant writing with articles like "The Ten Commandments of Successful Grant Writing," and Webster's "New World Grant Writing Handbook."

They also have links to other websites with valuable resources for grant seekers.



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WEBSTAR

This Month's WebStar Winner Is:

New York Funders Alliance
New York Funders Alliance is an association of grantmakers and philanthropic advisors throughout New York State.

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Nonprofit Overhead—How Much Is Enough?

The *Chronicle of Philanthropy* recently published an article by two professors of public administration stating "...nonprofits may need to spend one third of their budget on overhead to thrive."

They observed that nonprofits that skimp on things like IT, facilities, equipment, staff training, program development, and fundraising don't fare as well as nonprofits that spend more in those areas.

The authors decided to research to determine at what level spending more in these areas did not provide additional benefit.

They believed the answer might be different for different types of organizations, so they decided to focus on arts and cultural nonprofits.

They analyzed data from several years, specifically how much of these organizational budgets covered overhead and how successful they were, (based on attendance). Nonprofits that spent 35% of their budget on overhead fared best, according to this measure. They also observed nonprofits spending less saw a 9% decrease in attendance, and those spending significantly above 35% saw attendance drops of 30%.

They acknowledge this contradicts the beliefs of some charity monitoring organizations that lower overhead is better than higher overhead.

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Their findings also confirmed that competitive salaries, staff training, equipment, and other resources are necessary for long-term
success. Nevertheless, they find funders pressure nonprofits to keep their overhead low, and nonprofits often conform to that pressure. The authors see two types of negative outcomes including (1) paying noncompetitive salaries, replacing paid staff with volunteers, and using outdated facilities and equipment, and (2) distorting how they report their expenditures.

They said that they are not trying to create a new benchmark for overhead because different nonprofits require different levels of overhead. As an example, fee-for-service programs require more overhead.

They conclude by encouraging nonprofit leaders and funders to find more meaningful ways to assess whether a nonprofit is worthy of donors' dollars than simply by calculating the share of their budget spent on overhead.

We have also observed, in our work, that proper levels of spending on IT equipment, training, and monitoring can greatly improve staff efficiency, organizational security, and job satisfaction.

We also believe organizations can help foster this understanding by communicating information about their overhead spending; especially in years when there are unusual expenditures for

Independent Contractor Versus Employee Guidance (Yet Again)

The US Department of Labor (DOL) has proposed, once again, changing how workers are classified as employees or independent contractors.

Changes under the Trump administration made it easier for businesses and nonprofits to classify workers as independent contractors by focusing on just two key factors. The DOL is proposing several factors be analyzed to determine whether the worker is economically dependent upon the employer for work rather than being in business for themselves.

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Individual factors would not be given special weight, they would be considered as a whole.

Factors would include:

- the nature and degree of the workers control over their work,
- the workers opportunity for profit or loss,
- the relative investment of the worker and of the employer,
- the permanence of the working relationship between the worker and the employer,
- the degree of skill necessary to perform the work, and
- the extent to which a worker's duties are an integral part of the employer's business.

Control is not limited to control that is actually exerted, but also includes control that can be exercised.

If there are any significant modifications to these proposals, we will provide an update.

Proper classification is important because misclassification can leave the organization, and potentially employees or even certain volunteers, liable for payroll taxes.

What to Do If, and Possibly Before, Your Organization Is Audited by IRS

The IRS has a very thorough and intensive process they follow when auditing nonprofits. The good news is, it is not a secret. They publish Technical Guides, which provide detailed information about various types of nonprofit organizations. These guides conclude with examination techniques for IRS auditors to follow. These are the specific procedures auditors will perform when they audit nonprofits.

The most recent Exempt Organization Technical Guide is for Business Leagues. It is IRS publication 5710, which is readily available on the IRS.gov website. It is complete with detailed procedures that an IRS auditor will follow when auditing a business league.

This is not only valuable in order to be prepared for an audit, but also valuable to assure you are complying with the various rules and regulations that apply to your organization.

Retirement Plan Contribution Limits Increasing

The IRS recently announced increases to allowed contributions to 401(k), 403(b), and section 457 plans through employers. Starting in 2023, regular contributions will go up to $22,500, and catch up contributions for workers 50 or older are an additional $7,500, making a total of $30,000 that can be contributed by an employee of a nonprofit or other business.

International Charity Fraud Awareness Week

The BBB Wise Giving Alliance recently sponsored the "International Charity Fraud Awareness Week." This is a symposium of regulators, law enforcement agencies, charities, and other nonprofits seeking to raise charity fraud awareness. The Alliance provided several guidance tips for donors.

Donors should not click on links that purport to take you to a charity website. Go directly to the website—and be careful it is the proper website. A popular fraud technique is to create a "spoof" website that sounds and looks similar to a legitimate charity but exists solely to steal your money and your information.

Donors are also reminded to watch for excessive fundraising pressure, an indication that the organization may not be legitimate.

Donors can check the registration status of charities with the IRS Tax-Exempt Organization Search tool (Google: IRS TEOS) and with the state Charities Bureau.

Donors or others that suspect charity fraud should contact the state Attorney General's office. The Better Business Bureau also has a scam tracker at *bbb.org/scamtracker*.

Bring Your Own Device Benefits, Risks, and Best Practices

Employees using their own device for work did occur in the past, but, as a result of the pandemic, it has become much more common for employees to use their own laptops, pads, and phones to access company data.

It is convenient; employees are familiar with their own devices, but the risk of a security breach is much higher than it is with company-owned and controlled devices.

Mobile devices are not always password protected, nor kept up-to-date with patches or security software. Restrictions on access to Internet connections and public Wi-Fi may not be in place, and limitations on downloads may not match limitations for company devices.

These devices are sometimes lost or stolen. Ponemon Institute (a highly regarded research center dedicated to privacy, data protection and information security policy) reported that more than 12,000 laptops are lost weekly in airports, and less than one third of them are recovered.

Hackers with lost or stolen laptops or other devices find it easier to gain access to company information with them than through hacking into a system.

The risks are significant, including: access to confidential donor, employee, and other information, and potential access to bank accounts, investment, or other financial assets.

Best practices for these devices include providing the same support as the organization provides for their own devices, and educating employees about risks with public Wi-Fi, social media, downloads, and Internet access.

Mobile devices should be password protected and set up for remote deletion of confidential information in case a device is lost or stolen. BYOD is a trend that is likely to continue. Be sure it continues securely!

Nonprofit Entrepreneurism How-to

A local nonprofit was featured in an article about nonprofit entrepreneurism: two retired business executives garnered support of local businesses, community agencies, donors, and volunteers to create an initiative to provide teachers of students living in poverty with the school supplies and tools they need to help those children.

Pencils and Paper is now a program of Jewish Family Services, using the strength and stability of that organization to assure these initiatives continue as long as there is a need.

The article shares several lessons learned:

- start with a broadly understood and recognized need,
- the mission and goals must be legitimate, easy to understand, achievable, and measurable,
- know the direction that you want to take, and
- in order to not be overwhelmed by what may lie ahead, remember to go one step at a time

They also developed several key takeaways:

- the need for a formal fundraising plan,
- considering a nonprofit partner to reduce the overhead,
- looking for support and guidance from other organizations that share your mission and goals, and
- not letting planning create paralysis.

These points can be useful guidance for anyone undertaking an entrepreneurial startup.