



Succession Planning, Financial Guardrails & Business Sustainability



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Agenda

Succession Planning

Financial Guardrails

Business Sustainability/Valuation





Succession Planning



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What Is Succession Planning?

Definition of Succession Planning

Succession planning is a structured, ongoing process ensuring leadership continuity at staff and board levels.

Types of Succession Plans

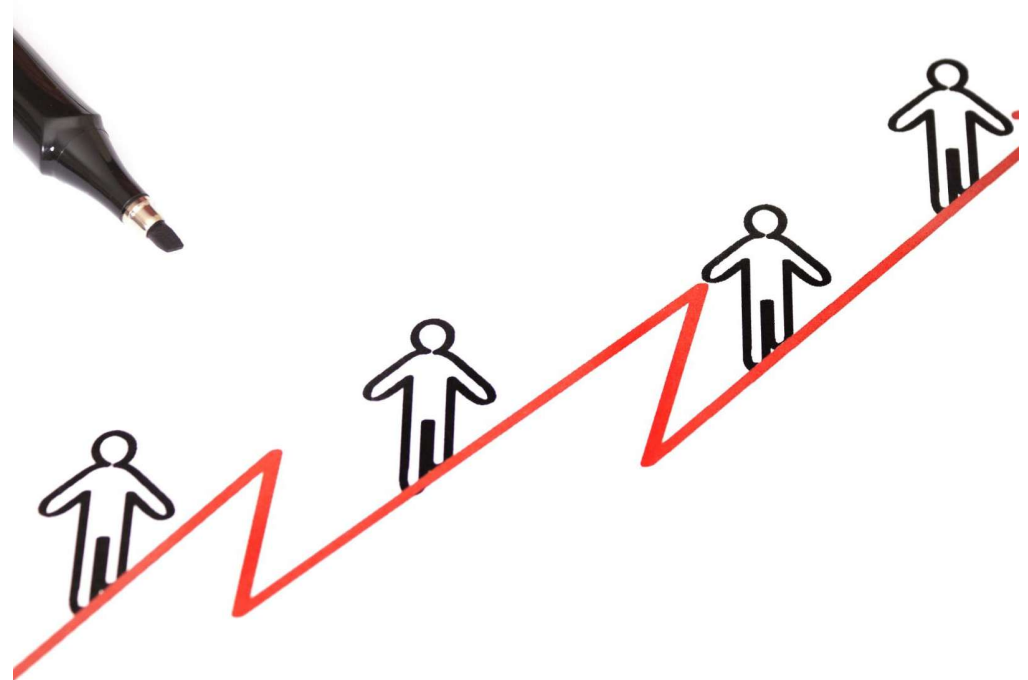
It includes emergency plans, short-term transitions, and long-term leadership development strategies.

Purpose of Succession Planning

The goal is to protect the organization, not just replace individuals.

Current Practice Insights

Many organizations lack written plans and rely on informal assumptions, highlighting improvement needs.



Transition Planning Versus Succession Planning



Transition Planning: How do I transition out of ownership in a way that meets my personal and financial goals and leaves the company sustainable?



Succession Planning: Who will lead our company when the current leader(s) are gone?



No Succession Plan

Confusion and anxiety about the future

Drop in morale

Reduction in quality

Delays

Drops in productivity

Lack of ability to respond to changes in the market

Decline in reputation

No clear path / strategy for the future



With Succession Plan

Avoids employees choosing their plan B

Builds confidence in employees

Better ability to deliver consistently on quality

Maintains company's reputation

Benefits talent retention, culture, sustainability

Create opportunities for developing leaders to learn and fail...and learn from failing



Transitioning to the Next Generation

- Leadership development
- Knowledge transfer
- Communication to stakeholders
- Change management
- Clashing styles
- Balancing family and business interests
- Emotional attachment
- How will you be involved after the transfer?





Transfer the Wealth



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Internal Transition Structuring



**Intergenerational Transfer -
Transferring ownership to
family**

Giftting, seller financing



**Management Buyout – Key
managers purchase the business**

Seller financing, bank loans,
private equity, owner redemption

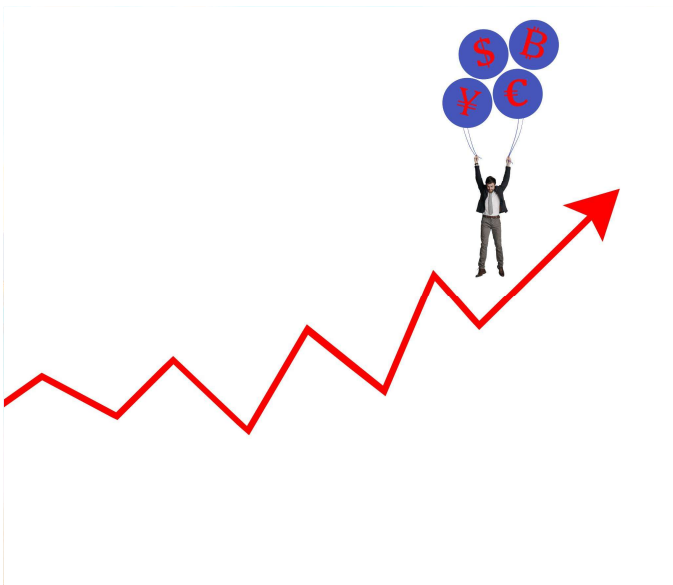


**ESOPs – Selling all or part of the
business to employees through a
trust**

Company profits, seller financing,
third-party loans



Risks of No Succession Plan



Operational Risks

Without succession planning, organizations face service disruptions, staff uncertainty, and loss of institutional knowledge.

Financial Risks

Leadership changes without planning can cause revenue decline, sponsor hesitation, and delayed decision-making.

Governance Risks

Boards may be forced into reactive decision-making, resulting in rushed and pressured governance choices.

Avoidable Crisis

Lack of succession planning turns expected leadership changes into crises that could be prevented.

Succession Planning Framework

Identify Critical Roles

Focus on key positions whose absence would significantly disrupt business operations.

Document Processes and Relationships

Record essential workflows and connections to minimize reliance on specific individuals.

Develop Internal Talent

Enhance bench strength by training and providing cross-functional exposure to employees.

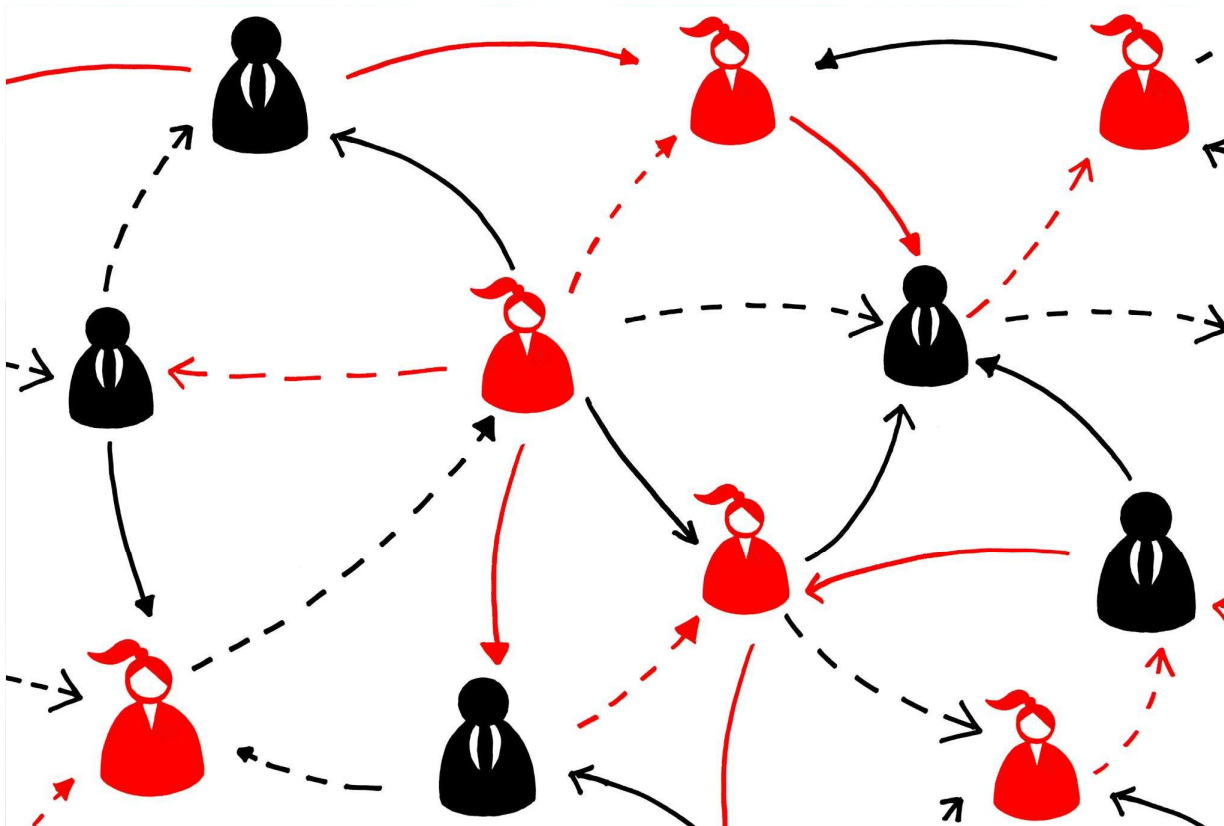
Interim Protocols for Transition

Establish clear decision-making authority during leadership changes or absences.

Board Oversight and Accountability

Ensure regular review and accountability through active board involvement in succession planning.





Leadership Transition Best Practices

Preparation Phase

Define success profiles and assess organizational readiness to ensure smooth leadership transitions.

Transition Execution

Maintain trust with transparent communication and structured knowledge transfer during leadership changes.

Post-Transition Support

Use formal checkpoints and board support to help new leaders succeed after transition.

Cultural vs Technical Challenges

Relational dynamics often pose greater risks than technical challenges during leadership changes.



Financial Guardrails: Common Risks and Core Financial Guardrails



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Establishing Financial Guardrails for Leadership Transitions

What are Financial Guardrails?

Financial Guardrails are pre-defined policies, controls, and decision-making boundaries to protect the organization's health while allowing leadership continuity.

The objective is not to restrict leadership effectiveness, but to ensure financial stability, accountability, and confidence among stakeholders.

As an owner the goal is to weather leadership changes without compromising mission delivery or long-term sustainability.



Financial Guardrails

Common Transition Risks



Common Risks During Transitions

Risk: Clients leave during or after the transition.

70–90% of firm value is tied to predictable recurring client revenue, so retention risk is the #1.

Why it happens:

- Relationships are tied to the owner (not institutionalized)
- Clients feel uncertainty about service quality or continuity
- Competitors actively target transitioning firms

Impact:

- Immediate revenue loss
- Direct reduction in
- Earnouts jeopardized



Common Risks During Transitions

Risk: Overdependence on a small number of large clients.

Why it matters:

- Losing 1–2 key associations can materially impair the business
- Buyers discount valuation when concentration exceeds ~15–20% per client

Impact:

- Reduced sale price
- Potential deal failure



Common Risks During Transitions

Owner Dependency Risk

Risk: Business cannot operate effectively without the owner.

- Common indicators:
- Owner is primary relationship manager
- Owner involved in pricing, delivery oversight, and problem resolution
- Limited second-tier leadership

Impact:

- Lower valuation (buyers discount “key-person risk”)
- Longer transition or required earnout involvement
- Post-sale consulting obligations (limiting true retirement)



Common Risks During Transitions

Staff Retention Risk

Risk: Key employees leave during uncertainty.

Why:

- Fear of role changes or job security
- Better offers during perceived instability
- Loyalty to outgoing owner

Impact:

- Loss of institutional knowledge
- Increased onboarding/training costs
- Direct impact on service delivery and client retention



Common Risks During Transitions

Personal Financial Exposure Risk

Risk: Owner's retirement depends too heavily on the business outcome.

Red flags:

- No diversification outside AMC
- Heavy reliance on earnouts or installment sales
- Personal guarantees still tied to business

Impact:

- Retirement insecurity
- Pressure to stay involved longer than planned
- Financial stress if transition underperforms



Financial Guardrails

Core Financial Guardrails



Goals of Financial Guardrails

Safeguard Owner Equity and Reserves

Protect association owners' invested capital and maintain three to six months of operating reserves to absorb shocks.

Preserve Financial Stability Through Transitions

Keep cash flow, payroll, and member services running smoothly during leadership change or unexpected disruptions.

Conservative Budgeting and Risk Control

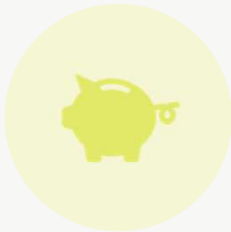
Set clear authorization thresholds and dual approvals so no single individual can put owner assets at risk.

Build Owner Confidence and Long-Term Value

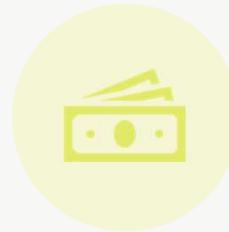
Reinforce transparency, accountability, and disciplined stewardship that strengthen enterprise value over time.



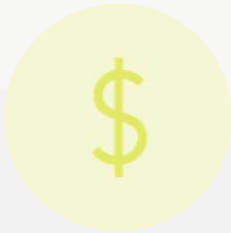
Core Financial Guardrails – Personal Readiness



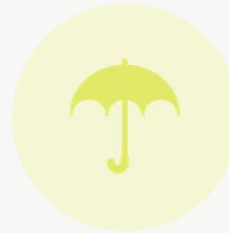
Liquidity and Diversify Personal Income: 18+ months of personal liquidity – increase personal cash flow (i.e. retirement accounts, investment portfolios, business sale proceeds)- create buffers to remove pressure of staying involved longer than desired.



Tax Efficiency: evaluate implications for sale, capital gains planning, state tax considerations, charitable giving strategies to reduce tax burdens while aligning with association missions.



Debt and Personal Liabilities: limit dependent on future business income to service debt, pay down personal guarantees tie to AMC, review any cross collateralization between personal and business assets.



Risk Protection: protect accumulated wealth and income streams, long-term care evaluations, umbrella liability coverage health insurance continuity.



Separating personal financial readiness from business readiness—both must be independently stable to enable a successful transition



Core Financial Guardrails – Quality Financial Statements (Top 3 Financial Focus Areas)

AMC financials must reflect the multi-entity nature of the business.

What quality looks like:

- Separate reporting between:
- AMC entity (your business)
- Client associations (fund accounting)
- No commingling of funds
- Clean intercompany accounting where applicable

Revenue Visibility by Client & Service Line

- AMC valuation is driven by **predictable, diversified client revenue.**
- Revenue broken out by:
- Client
- Service lines (management fees, events, consulting, etc.)
- Contract-based recurring revenue clearly identifiable



Core Financial Guardrails – Quality Financial Statements (Top 3 Financial Focus Areas)

Unlike nonprofits, AMCs are valued on cash flow durability.

What quality looks like:

- Predictable monthly cash flow
- Low volatility in collections
- Contract renewal visibility



Core Financial Guardrails – Cash Flow and Liquidity

Cash Flow Visibility & Forecasting Capability

Buyers care about what’s coming next, not just historical data.

What quality looks like:

- 3–6+ month rolling cash forecast
- Clear visibility into:
 - Contract renewals
 - Upcoming billing cycles
 - Seasonal event cash flows

For an AMC, cash flow and liquidity are one of the top drivers of valuation and deal success.

Buyers aren’t just asking “are you profitable?”—they’re asking:

“How predictable is your cash, and can this business run smoothly without disruption?”

| Area | Strong AMC | Weak AMC |
|--------------|-----------------------------|---------------------|
| Cash Flow | Consistent, recurring | Spiky, event-driven |
| Liquidity | 3–6 months reserves | Constant tight cash |
| AR | Collected on schedule | Aging issues |
| Forecasting | Clear <u>3–6 month</u> view | No visibility |
| Client Funds | Fully segregated | Commingled |

Self Assessment Readiness

- Take some time to rate each area to see where your financial guardrails measure in your succession readiness journey:

Rating Scale: ● Strong/Ready ● Needs Improvement ● Not Ready

Readiness Scale

Financial Quality

Cash Flow & Liquidity

Revenue Stability

Profitability and Cost Control

Risk and Compliance

Personal Readiness

Financial Guardrails

- 3-5 years of compliant financial statements
- 3-6+ months of reserves, strong collections and AR management of less than 90 days outstanding
- Strong membership retention, low reliance on events/one-time revenue
- Stable profit margins, cost structures aligned with revenue, no unexplained expense growth
- Compliance (tax, regulatory) up to date, fraud/cyber security controls in place
- Retirement funding target defines, clear understanding of business value, tax/estate planning in progress





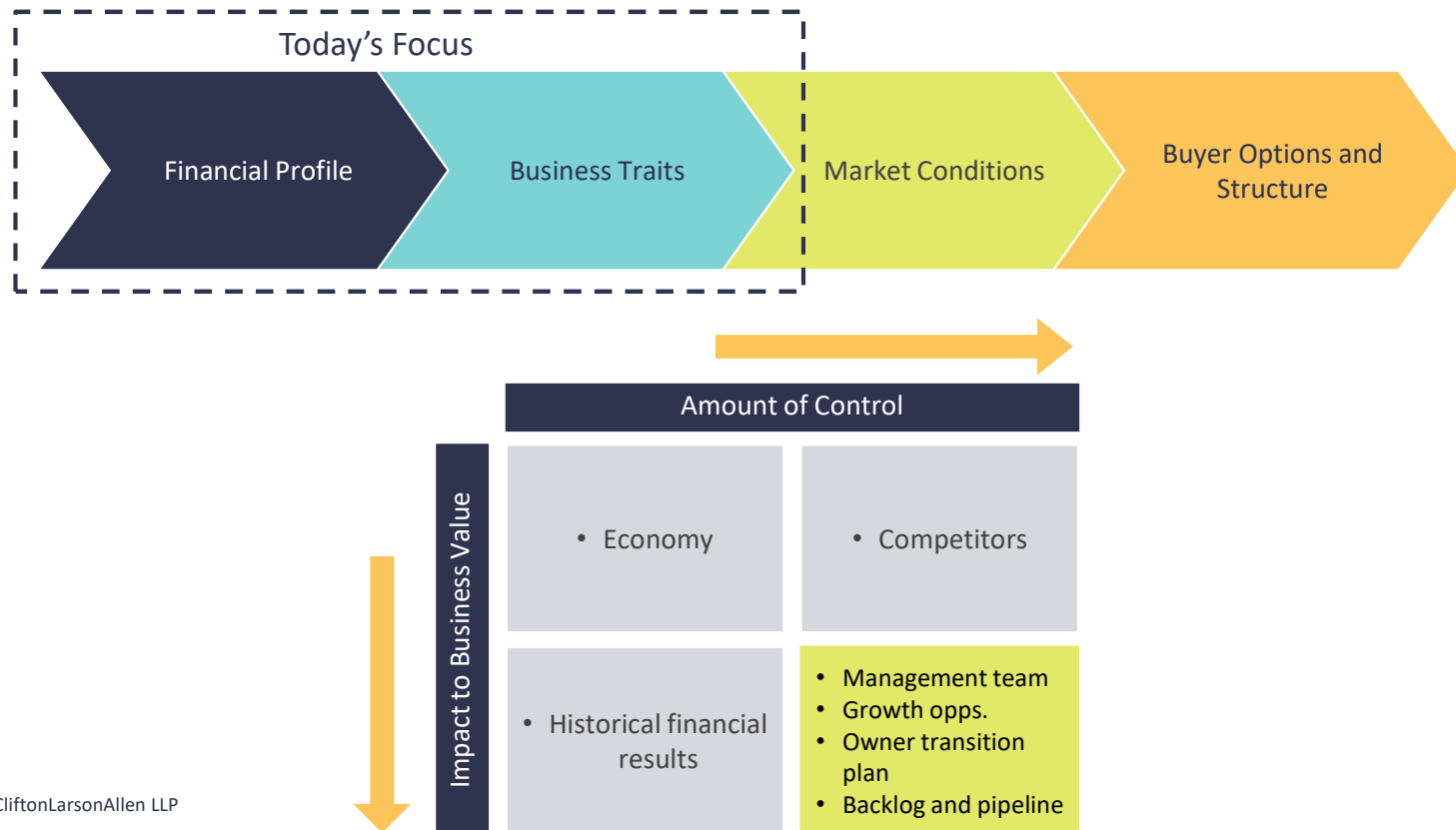
Business Sustainability and Valuation



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Value Factors and Control

There are several value factors to take into consideration, beyond just financial performance. Some factors are more controllable than others... *focus on what you can control.*



Understanding Valuation Without Equity

Enterprise Value Components

Enterprise value in nonprofits reflects recurring revenue, membership stability, brand strength, and program profitability.

Impact on Strategic Opportunities

These valuation factors influence attracting talent, forming partnerships, and pursuing mergers or collaborations.

Assessing Value Drivers and Risks

Organizations should identify their current value drivers and areas of vulnerability to strengthen their enterprise value.



Sustainability and Resilience Framework

Integrated Sustainability Pillars

Combines financial, operational, leadership, and strategic aspects into one comprehensive sustainability framework.

Multi-Dimensional Resilience

Highlights that resilience depends on all pillars being strong; weakness in any increases overall risk.

Collaborative Improvement

Group exercise encourages honest assessment and shared accountability to focus improvement efforts effectively.



What a Resilient Association Looks Like

Smooth Leadership Transitions

Resilient associations have seamless changes in leadership ensuring continuity and stability.

Stable Revenue Through Cycles

Stable revenue during economic cycles reflects strong financial resilience and planning.

Proactive Governance

Effective and forward-thinking governance drives sustainability and risk management.

Low Unplanned Staff Turnover

Maintaining low unplanned employee turnover supports organizational knowledge and stability.



Achieving Your Goals Requires



A multifaceted approach



A holistic view



The right advisory team

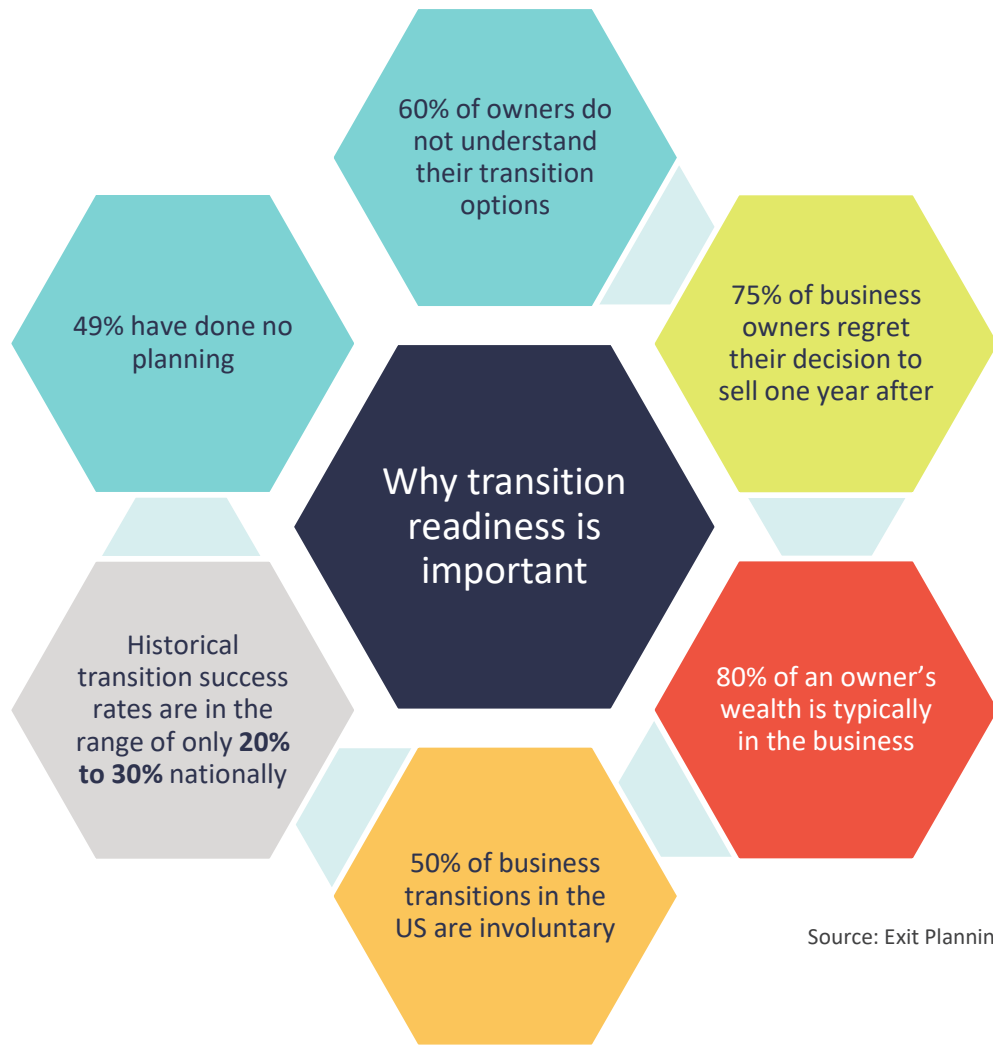


Knowing where you are going



Knowing how to get there

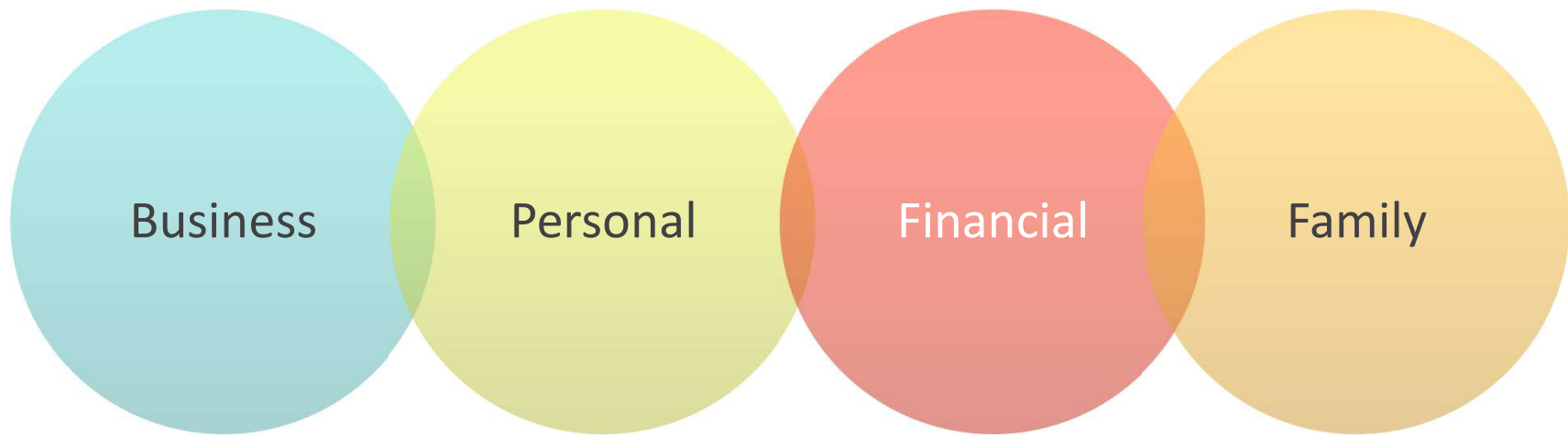




Source: Exit Planning Institute 2023



Our Approach: Readiness Through Planning



Identify Baseline

01

Determine value.

02

Assess the business across key value drivers.

03

Clarify business, family, personal and financial goals.



Value and Sustainability



It's about *more* than just numbers

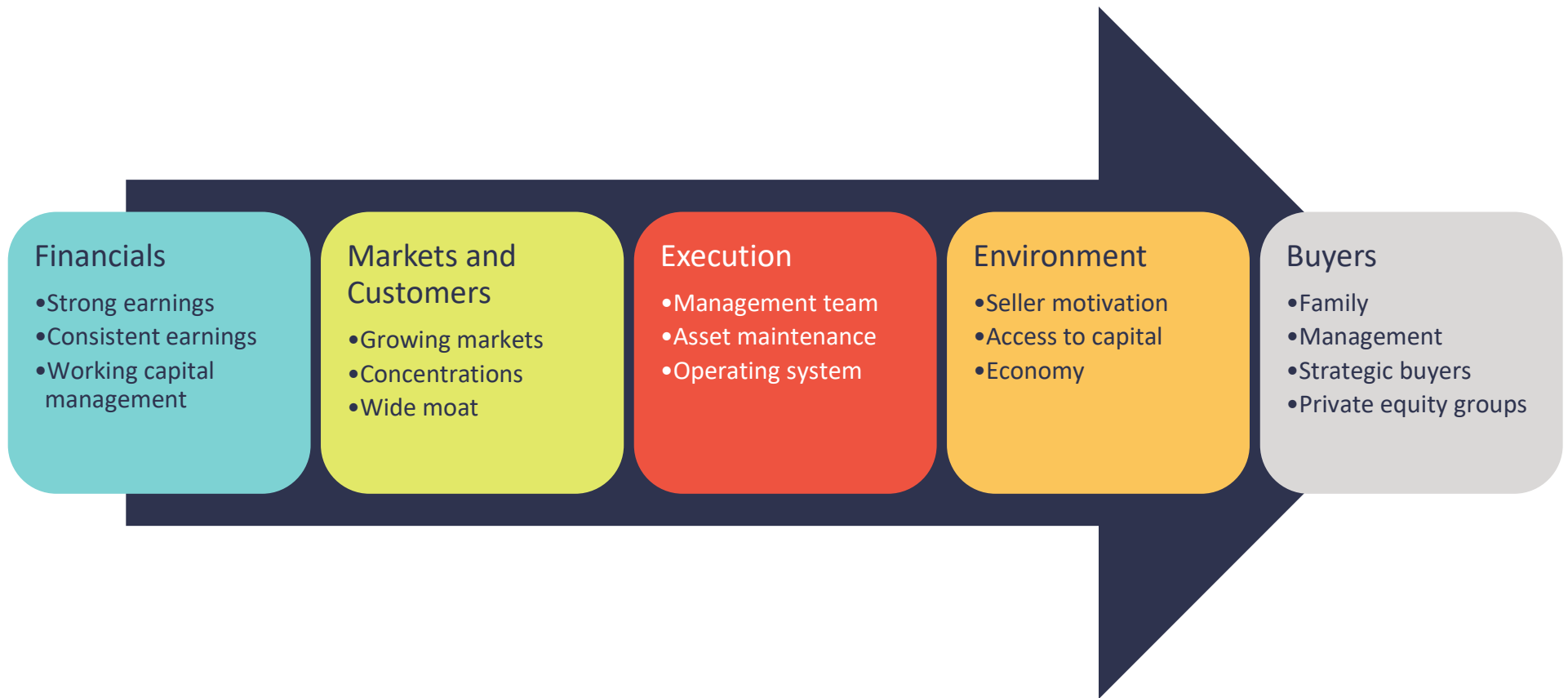


Building Value

With proper preparation, a business will command more interest and higher value



Understanding Enterprise Value



Understanding Enterprise Value

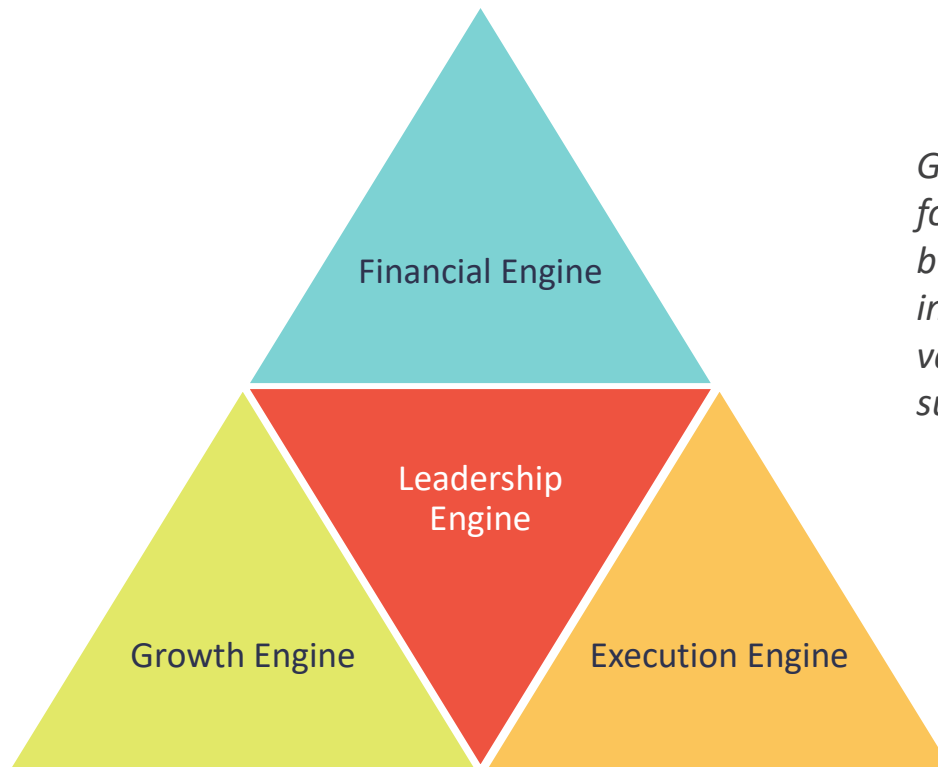
Some risk areas can be easy to control while others may require increased effort and more time

- Poor financial trends
- Customer / supplier concentrations
- Commoditized product offering (lack of differentiation)
- Environmental, health, and/or safety issues
- Employee talent / succession issues
- Required legal consents for ownership transfer
- Other legal issues (i.e., lawsuits)
- Lack of alignment with owners / family members
- Incomplete corporate records
- Owner centralization



The Value Triangle

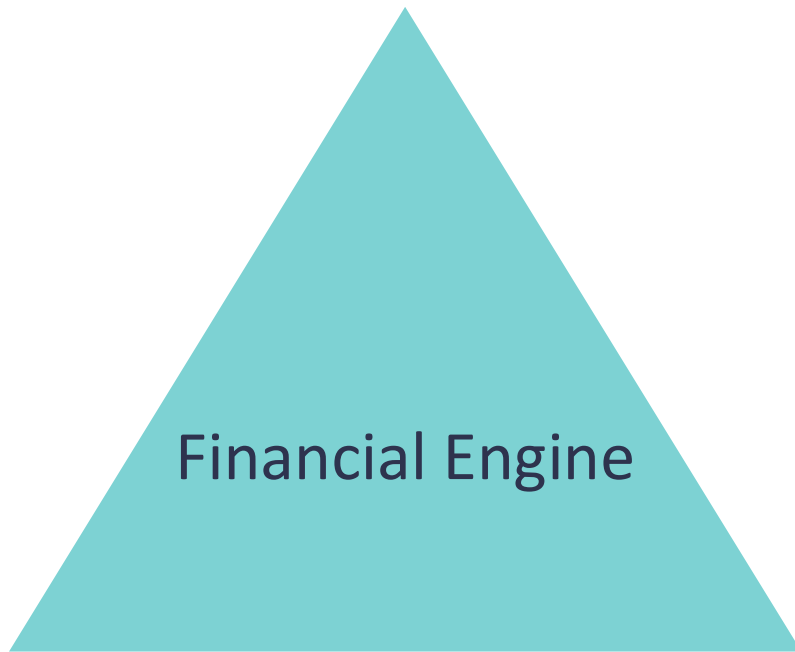
There is significant ability to drive meaningful value 1-5 years out from a business transition



Growing each of the four “engines” in balance leads to increased enterprise value and options for succession.



Managing The Financial Engine

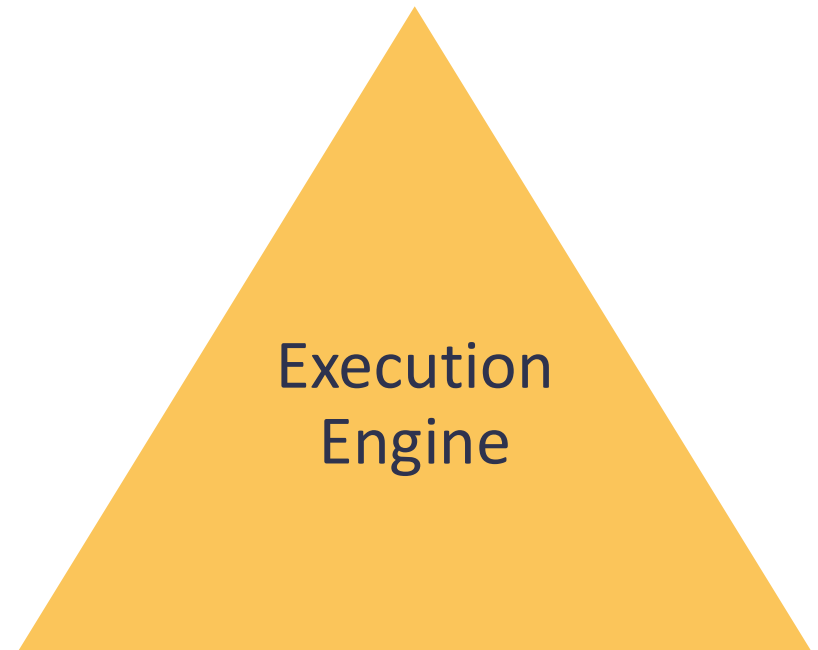


- Growth *and* consistency are most critical
- Do earnings turn to cash or more investment? Strong EBITDA margins (>10%)
- How resilient is the financial model with changes in demand?
- What is the value-add?

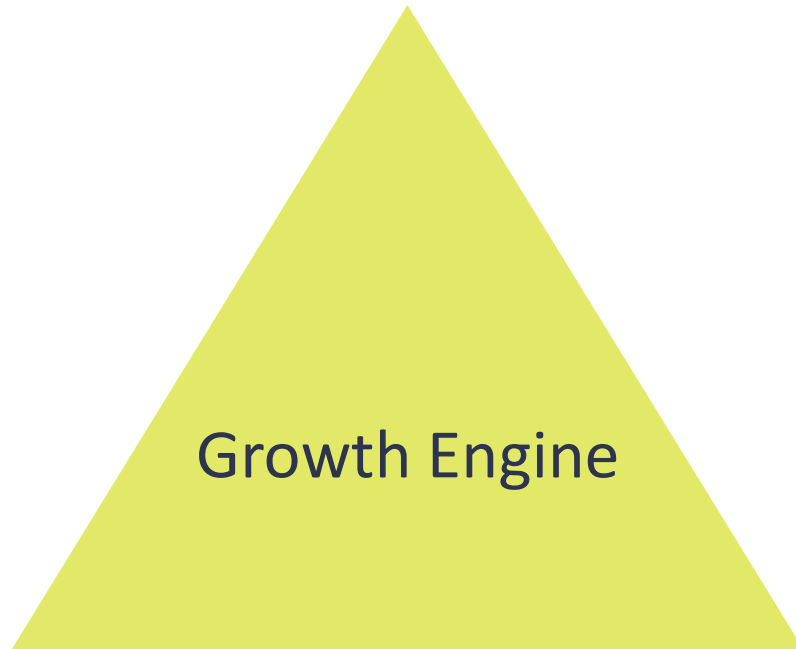


Managing the Execution Engine

- Strategic plan in place
- Scalable processes / systems
- Key performance indicators (on-time delivery, lead-time, quality)
- Strong project management that creates stability on the floor
- Institutional vs. individual knowledge



Managing the Growth Engine

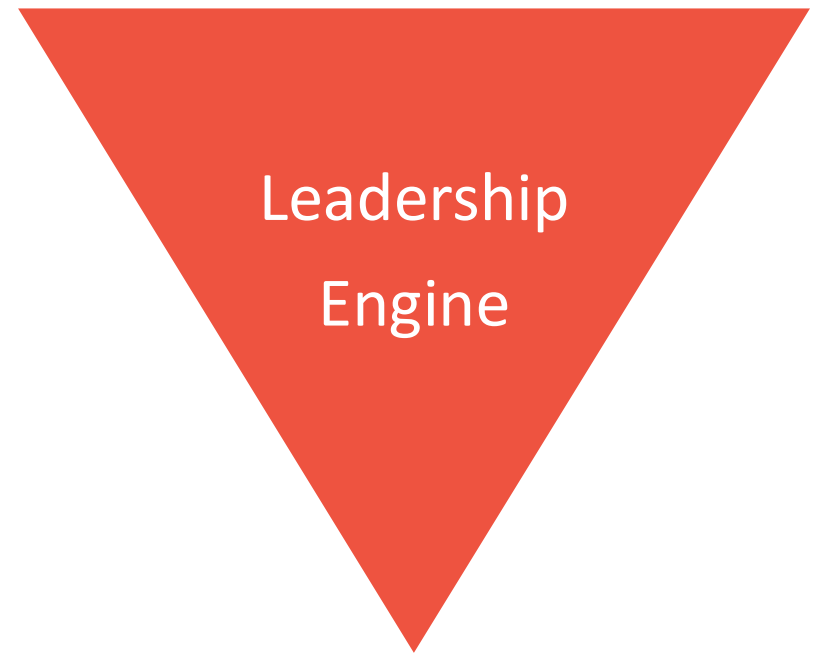


- Business development strategy in place?
- Where is the company in the business cycle?
- How diversified is the business (customers, markets, products)?
- Demonstrated ability to enter new markets
- Are there unique capabilities that create customer loyalty / dependency?
- Contract vs. P.O. relationships



Managing the Leadership Engine

- Does the company have *individual* vs. *enterprise* value?
- Are there clear non-owner *leaders* in key functions? (sales, operations, etc.)
- **Leadership** vs. management
- Culture is clear within minutes on the floor



Understanding Enterprise Value

Be honest about your current execution and areas of opportunity

People

Who are the key people?

How much of the business relies on these key people?

Are key people incentivized to stick around?

Process and controls

Data integrity and completeness

Systemized processes vs. a culture of tribal knowledge

Who holds relationships for employee pipelines, customers, etc.

Infrastructure

Are current assets satisfactory to support operations?

Do you have a digital strategy?

What does capacity look like?

Market position

Capabilities and core competencies

Defensible market position

Intellectual property protection

