COVID-19's impact
3 critical steps when canceling events

Are you covered? Potential insurance relief for COVID-19 losses

It's time to *really* pay attention
The COVID-19 era makes board financial oversight more important than ever

News for Nonprofits

NONPROFIT AGENDAS

AUGUST/SEPTEMBER 2020

SECHLER MORGAN
Certified Public Accountants, PLLC

info@azcpa.com
2418 W Barrow Drive, Chandler, AZ 85224
Tel: 602.230.2700/Fax: 602.230.2705
www.azcpa.com

COVID-19's impact

3 critical steps when canceling events

The COVID-19 crisis has prompted some nonprofits to cancel important events — for example, moneymakers like seminars, annual meetings and fundraisers — months into the future. Cancellation is a dramatic measure that can have significant effects going forward, particularly when the events are major revenue generators. Whether those effects are largely positive or negative depends on how you handle the cancellation. Here are some best practices.

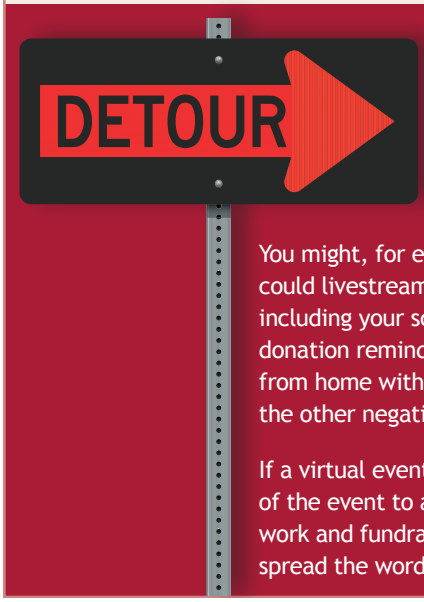
1. Review your contracts and proceed accordingly.

Pore over all your vendor contracts for the event to determine, for example, the schedule and notification requirements for full or partial refunds in case of cancellation. Many of these will escalate the costs you must shoulder as you approach the event date.

Also check if a contract includes any clauses that might excuse your obligation to pay. A contract could, for example, contain a "force majeure," "impossibility" or similar clause that permits cancellation without fees or penalties when necessary due to events beyond your control, such as natural disasters or acts of terrorism.

Inclusion of such a clause doesn't guarantee you're in the clear, though; the specific language matters. Most force majeure clauses detail a list of events that trigger them, and you must determine if the list is exhaustive (the clause only applies if a specified trigger occurs) or nonexhaustive (the list provides only examples of triggers, not every possible trigger). If the contract contains the former, does the list include language that covers today's circumstances, such as epidemics, public health emergencies or government orders?

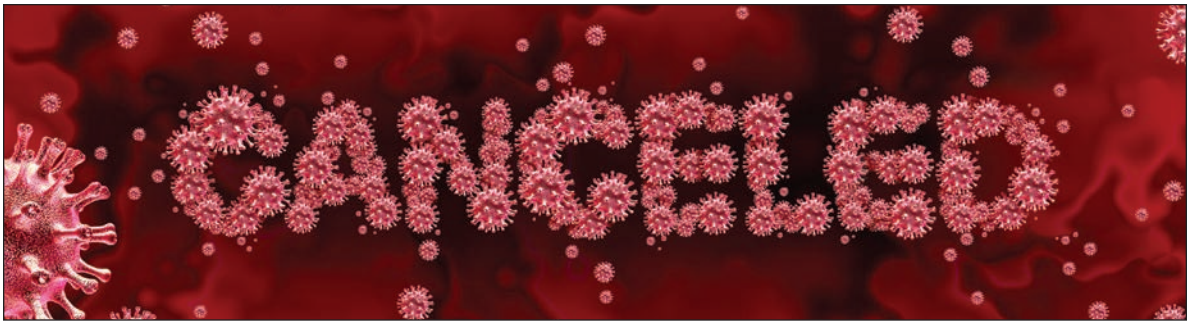
Just a detour: Consider alternative fundraising routes



Nonprofits may have little choice but to cancel revenue-generating events, but the need for funds continues and, in some cases, has ramped up notably in recent months. With large public gatherings remaining unappealing for many people, even when permitted by local governments, it may be time to think about some nontraditional options.

You might, for example, hold a scaled-down, virtual version of your planned event. You could livestream it on Facebook or YouTube through the event page on your website, including your scheduled presentations, videos and speeches. By providing prominent donation reminders and URLs, you can encourage your regular supporters to contribute from home without having to take health risks, spend money on airfare or deal with the other negatives they may associate with attendance at formal events.

If a virtual event is beyond your current capacity, you could convert the scheduled date of the event to a "Giving Day." Dedicate 24 hours to shouting out your organization's work and fundraising needs, and ask your speakers, award recipients and attendees to spread the word on their social media accounts.



If you believe a force majeure or similar clause applies, pay attention to the notification provisions. Although you might want to cancel the event as early as possible for practical reasons, such as giving speakers time to change their plans, it may be necessary for force majeure purposes to wait until the circumstances clearly trigger the provision. Once that happens, however, delayed notification could jeopardize your ability to rely on the clause.

2. Understand your insurance coverage.

Do you have event cancellation insurance? If so, you'll also need to closely scrutinize its provisions. Unfortunately, these policies frequently exclude "uncommon" and "catastrophic" events, such as losses caused by acts of war.

Some expressly exclude coverage for losses arising from "communicable disease or the threat or fear of communicable disease (whether actual or perceived)." If your coverage is subject to this exclusion, the World Health Organization's pandemic designation in March 2020 likely triggered the exclusion.

Organizations that canceled their events prior to that designation may have a case for coverage, though. So, while "premature" cancellation might undermine force majeure claims, it could benefit you when it comes to insurance for your resulting losses. You might want to have your attorney look at your policy.

3. Establish — and adhere to — a clear refund policy.

The prospect of refunding prepaid tickets or sponsorships understandably gives organizations already on shaky financial grounds the shudders. But handling refunds transparently and *promptly* may pay off down the road.

Don't necessarily assume that every donor and sponsor will want a refund. Give them the option of converting their ticket purchases or sponsorships to donations, focusing on the good work the organization is doing, and making sure to highlight the tax incentives of doing so. Or you could offer them another product or service in place of the event refund.

For those donors and sponsors who prefer a refund, remember that they may well be feeling a financial pinch, too. Focus on maintaining their goodwill and positive feelings toward the organization in the hope they contribute in some way later. That means providing clear explanations of how you're handling refunds and then living up to the expectations you've set.

Help is a call away

Many uncertainties remain about COVID-19 and its effect on the economy in the short and the long term. Your CPA can help you establish a plan to stabilize your bottom line and sustain your mission even in the face of lost fundraising and other revenue-making opportunities. ■

Are you covered? Potential insurance relief for COVID-19 losses

The COVID-19 crisis and its economic fallout have many organizations hunting desperately for financial relief. While much has been made of the various governmental support programs, it's also worth reviewing your insurance policy portfolio to determine if you qualify for coverage for some of your COVID-19-related losses and exposures.

Below are some of the insurance policies and provisions that might help your organization — and some of the challenges you may face trying to get reimbursed for losses. Also see "COVID-19's impact: 3 critical steps when canceling events" on page 2 for information on event cancellation insurance.

Business interruption

Many property insurance policies include coverage for business interruption losses. They typically reimburse the lost income and extra expenses incurred when your operations are disrupted due to property damage.

Those policies, however, generally require physical loss of, or damage to, the insured property for the coverage to apply — and insurers are likely to argue that COVID-19 closures don't satisfy this requirement. But courts haven't settled on a universal definition of physical loss or damage, and some previously have ruled that contamination or other occurrences that make property unusable qualify.

In addition, property insurance policies might provide coverage for losses incurred when a "civil authority" blocks access to the property (through, for example, stay-at-home orders), regardless of

physical loss or damage. And some policies cover communicable disease without requiring physical loss or damage. On the other hand, policies might exclude losses caused by pathogenic organisms, viruses and disease, bacteria or illness-causing agents.

In other words, the policy's exact language ultimately will determine whether coverage is available. Not surprisingly, litigation over business interruption coverage for COVID-19 losses already has begun.

State legislative action also could determine the scope of coverage. For example, several states have introduced or considered bills that would prohibit insurers from denying business interruption claims based on a lack of physical damage or because COVID-19 is a virus. The insurance industry, of course, is bound to put up a fight.

Comprehensive general liability (CGL)

Nonprofits could face claims from clients, guests and others alleging they'd failed to exercise reasonable care in protecting against or warning of the risk of exposure to COVID-19. CGL policies, which cover third-party claims for bodily injury, might apply. Again, though, the policy language plays a critical role; it could include applicable exclusions.

You also could run into similar claims from employees. Those claims may fall within CGL coverage if they don't qualify for workers' compensation coverage.

Workers' compensation

Workers' comp applies to injuries "arising out of or in the course of employment." Although "ordinary diseases of life" (meaning those the general public is equally exposed to) generally aren't covered, workers' compensation coverage would be triggered if the illness was directly caused by an employee's work — for example, when a social worker is exposed while helping sick clients find the resources they need. The nuances of workers' compensation coverage vary by state, so check with your attorney.

Bear in mind, too, that workers' comp claims during this time aren't necessarily limited to those from people who're diagnosed with COVID-19. If you have employees working from home, they could file a claim after, for example, tripping over a laptop power cord.

Follow the rules

Whether your insurance policy provides coverage will depend on the specific circumstances and policy language. If you believe you're covered, take care to comply with the policy's claim requirements, deadlines and other obligations so you don't inadvertently forfeit the coverage you've paid for. ■

It's time to *really* pay attention

The COVID-19 era makes board financial oversight more important than ever

The board of directors plays a special role in ensuring that an organization stays financially on track. This responsibility is magnified in the shadow of the COVID-19 crisis, which has often pushed donations and other revenue down while upping the need for services. Keeping an eye on the following areas will benefit your nonprofit.

What does the budget reveal?

Board members should keep an eagle eye on the organization's budget. Certain budget-related issues hint at rocky financial times to come. Each month, members should compare the budget to actual results and look for unexplained variances. Some discrepancies are bound to happen in a year such as this one; nonetheless, staff should explain all *significant* differences thoroughly.

There may be reasonable explanations for changes in incoming revenue and expenses, such as increased program demands, funding changes or an event's cancellation. (See "COVID-19's impact: 3 critical steps when canceling events" on page 2.) When necessary, the board should direct management to modify activities to mitigate negative variances or institute cost-saving measures.

Board members also should keep an eye open for overspending in one program that's funded by another. And they should watch for dips in the organization's "rainy day" fund (its "reserves"), the raiding of an endowment or unplanned borrowing. Such moves might mark the beginning of real financial trouble.

Is there increased pressure on donors?

The board also should note if staff begins reaching out to historically major donors outside of the usual fundraising cycle. This may not be surprising in times like these — however, such contacts could mean the organization is scrambling for cash and hoping its most dependable donors will fill the gaps.

> *Staff should explain all significant differences in the budget thoroughly.*

Additionally, it's a red flag if board members start hearing from long-standing, passionate supporters who're worried about the organization's finances. What exactly are they hearing or seeing that prompts their concerns? What actions can the board take to better the situation?

Is the board relinquishing power?

It's understandable that board members who have full-time jobs and other responsibilities might cede some of their responsibilities to a trusted executive director (ED). This may be especially true during and after the COVID-19 crisis; unforeseen conditions can force decisions to be made quickly.

However, the board relinquishing power can be risky. It should note, for example, if the ED is making *strategic* decisions without board input and guidance. Also, an ED shouldn't be allowed to ignore expense limits, even if a program's needs unexpectedly expand. Going outside of the organization's budget or policy guidelines should require board approval.

How reliable are your financial statements?

Inconsistent financial statements — or statements that aren't prepared using U.S. Generally Accepted Accounting Principles (GAAP) — can lead to poor decision-making. It also can make it difficult to obtain funding or financing or compare the organization's metrics to those of other nonprofits in the same niche. If your organization isn't using GAAP (or another comprehensive basis of accounting), it may be time to implement it.

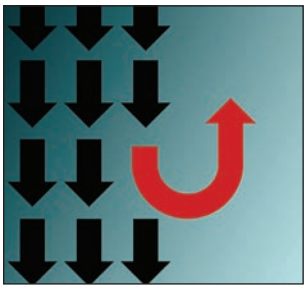
For larger nonprofits, the board or audit committee also should insist on annual audits and expect to select the audit firm. Members of the responsible group, such as an audit committee, should communicate directly with auditors before and during the process. All board members should have the opportunity to review and question the audit report.

Additionally, the audit firm may provide a management comment letter that reflects issues noted during the audit and opportunities for improvements in accounting, internal controls and operations. The board should carefully consider these recommendations and determine if suggested changes will lead the organization to a stronger financial footing.

Keep up the inquiries

The board needs to thoroughly understand what's going on financially within your organization to guide it properly. Board members shouldn't be afraid to ask questions, and they should offer suggestions based on facts. ■

Redirecting donations alienates donors



As organizations scramble to cope with the financial fallout of the COVID-19 pandemic, they might consider, out of necessity, that donors are irked when their donations are directed to projects different from what they'd intended. (This, of course, isn't legally permissible in the case of restricted donations.) But a new study published in the *Journal of the Association for Consumer Research* suggests that such a move could have negative repercussions down the road.

Researchers found that redirected donations increase perceived "betrayal" on the part of the relevant donors, leading to lower future donation intentions and volunteering. The sense of betrayal is compounded if the nonprofit is a "donor-to-recipient" charity where donors choose a specific project, such as Donors Choose or Kiva, as opposed to a traditional charity that uses donations for nonpreferred projects. And the betrayal seems greater when donations are redirected from projects seen as "moral imperatives" (for example, a clean water project). ■

OMB issues grant guidance for COVID-19 crisis

The federal Office of Management and Budget released a memo in mid-March providing U.S. agencies with guidance for managing grants and cooperative agreements during the COVID-19 crisis. The memo allows agencies to give federal award recipients affected by COVID-19 some temporary flexibility on certain requirements and costs.

The memo followed an earlier March memo that was narrowly drafted to help grant recipients performing research and services necessary for the emergency response to COVID-19. The latter memo expands the affected recipients to include those with lost operational capacity and increased costs due to the crisis.

If you haven't heard from your granting organizations, contact them. You'll need to determine how those groups are applying the memo and what specific relief they have available. ■

Most nonprofits lack formal diversity strategy

A large majority of nonprofits don't have formal diversity strategies, suggesting that organizations continue to struggle with establishing practices to align their workforce with the communities they represent. That was the top-line finding from a new study by Nonprofit HR, a for-profit consultant for nonprofits. The firm surveyed more than 560 respondents on diversity practices in U.S. and Canadian nonprofits.

The "2019 Nonprofit Diversity Practices Report" found that 69% of respondents lack a strategy, 48% don't have a diversity statement and only 22% have a staff person solely responsible for diversity efforts. By far, the greatest diversity challenge cited by respondents (42%) was realizing racial-ethnic diversity. The second most cited challenge (16%) was making it safe for management and staff to openly discuss diversity. ■

The support you need. The service you're looking for.

Succeeding in the not-for-profit sector today requires more than a strong commitment to your mission. It takes shrewd fiscal management, careful regulatory compliance, skillful use of technology and the assistance of advisors who know the issues nonprofit organizations face and how to address them.

This is where Sechler Morgan CPAs, PLLC comes in. Our team of experienced professionals cherishes the opportunity to support nonprofit organizations, meet their management challenges and fulfill their missions. We offer a variety of specialized accounting, tax and consulting services including:

- Audit intermediary services
- Budget and policy design
- Outsourced accounting/bookkeeping
- Tax form preparation (990, etc.)
- Strategic and management consulting
- Speaking on financial literacy and other topics
- Technology and virtual system design

RESPONSIVE QUALITY

We are committed to providing responsive, personalized service to the highest quality. We take time to truly understand your Organization so that we can customize our recommendations to your specific situation. Our goal is to make your processes easier, streamline your operations and ensure your success in reaching *your* goals.

We welcome the opportunity to discuss your mission and vision so that we may assist you with our expertise. Please call us at 602-230-2700 or e-mail info@azcpa.com and let us know how we may support you. Be sure to visit our website at www.azcpa.com for additional tools and information, as well as our archive of this newsletter.

SECHLER MORGAN CPAs, PLLC

2418 W Barrow Drive
Chandler, AZ 85224
www.azcpa.com