NONPROFIT AGENDAS

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COVID-19 forces a focus on operating costs

The COVID-19 pandemic and resulting recession have put many nonprofits in an unprecedented predicament. Revenues have dropped precipitously as organizations struggle to continue their missions in a dramatically different environment. And they face mounting unexpected costs as they try to protect the health and safety of their employees, clients and volunteers while doing so. It's almost inevitable that most nonprofits must cut their operating costs — but where to begin?

Troubling revenue losses

COVID-19 hit nonprofits hard, fast and right where it hurts — revenues. Organizations of all kinds saw funding dry up as major events were canceled and donors held back in fear for their own financial stability.

Based on surveys conducted from March through May 2020, for example, the Massachusetts Nonprofit Network found that organizations in the state suffered estimated initial revenue losses of a whopping $8.6 billion. On the other side of the country, a survey done by the Alliance of Arizona Nonprofits revealed almost $53 million in lost revenues as of June 11.

Perhaps the most obvious impact of such dramatic losses has been seen in job losses in the nonprofit sector. The Johns Hopkins Center for Civil Society Studies reported that 13% of people employed by a nonprofit in February 2020 had lost their jobs by the end of May. From March through May alone, 1.6 million nonprofit employees were terminated.

Also see "News for Nonprofits" on page 7 for information on the nationwide drop in donations.

4 areas to target

Depending on their individual circumstances, nonprofits pondering budget cuts may want to first consider the following areas:

1. Staffing

As noted above, many nonprofits already have made moves to shrink their compensation costs, including layoffs, furloughs, reduced hours and pay cuts. And your organization likely has performed similarly. You also might trim employee benefits, for example, requiring higher insurance co-pays or halting matching contributions to retirement accounts.

If stay-at-home orders forced you to temporarily transition your employees to remote work, you might want to extend this status with some of them. A smaller on-site workforce will reduce your need for office space. (See "Should you buy or lease your headquarters?" on page 5 for details on controlling facility costs.) Your overhead expenses, such as those for office supplies, maintenance, insurance and utilities, will decline, too.

2. Capital projects

Major capital projects that have been simmering for months or even years nonetheless require close consideration before proceeding. Painful or frustrating as it is, you may need to cancel or at least delay that new construction.

If you opt to go forward, review the financing terms and see if you can defer payments or negotiate more favorable conditions. You also should try to return to the bargaining table with your contractors in light of the new circumstances. If they've had other projects evaporate, they may be open to concessions.

3. Vendor arrangements

Similarly, you should revisit arrangements with your vendors. Technology is a particularly ripe area for harvesting savings. If you expect to have more employees working remotely permanently, for example, you might be able to scale back on your obligations for printers, copiers, phone lines and supplies.

Additionally, don't automatically upgrade; you usually don't need the latest devices and software to get the job done. If your devices fail, replace them with used or refurbished models. Also explore free software options, such as Google Docs or OpenOffice.

4. Marketing

Marketing is too important to simply abandon — the better approach is to go cheap. You might, for instance, put a pause on pricey direct mail campaigns and advertising, and instead concentrate on digital marketing.

People are obsessively online these days, perhaps more so than ever. You can reach massive audiences with budget-friendly social media strategies that provide strong content and effective calls to action.

The bottom line

The economic effects of COVID-19 will linger for some time. Your CPA can help you make the best financial decisions to survive the rough waters and position your organization for the future. ■

Self-funded unemployment insurance can mean hefty bills

The potential savings from staffing reductions could prove smaller for organizations that pay unemployment benefits on a case-by-case basis, rather than pay quarterly state unemployment taxes. These so-called "reimbursable employers" probably never anticipated something like the COVID-19 crisis when budgeting for their unemployment benefit costs. Those that have been forced to lay off large slices of their staffs now face potentially crushing unbudgeted costs.

It's not all bad news. The Coronavirus Aid, Relief and Economic Security (CARES) Act provides for reimbursement of 50% of the unemployment benefit costs that self-insured nonprofits incur from March 13, 2020, through December 31, 2020. But guidance from the U.S. Department of Labor requires them to pay the full benefits upfront and then file for reimbursement.

Relief appears to be on the way. Bipartisan legislation that would require nonprofits to pay only 50% upfront is currently with the President for signature. And some states may provide further relief. Montana, for example, is relieving reimbursable employers from charges for benefits related to COVID-19.

Board of directors

Teach them well: Financial literacy is key

Your board is responsible for reviewing your nonprofit's financial results so it can make sound decisions. But not every board member arrives at your organization with a financial background. Here are some suggestions for relaying some of the most vital information they need to know.

Communicating the balance sheet

A statement of financial position shows an organization's assets (cash, accounts receivable, and property and equipment), liabilities (accounts payable and long-term debt) and net assets (unrestricted, temporarily restricted and permanently restricted resources). Long lists of numbers can have a dizzying effect on readers. So instead of using a numerical format, employ graphs and pie charts to relay the information.

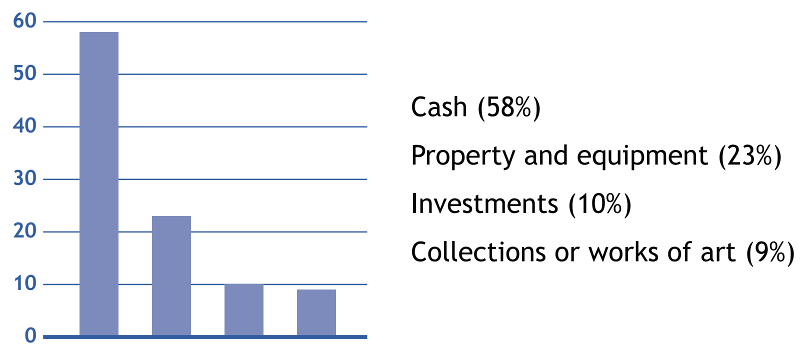
Using a pie chart to depict assets will show your board at a glance what portion of total assets can quickly be converted to cash (cash equivalents and investments) vs. the portion that cannot (property and equipment). Or, say, you create a pie chart that shows how your annual event was funded last year: money from attendees, sponsors and general funds. This tool can help a board make quicker and better-informed decisions — in this case, guiding them in setting or readjusting their funding expectations this year.

The bar chart in this article, for example, illustrates one nonprofit's breakdown of total assets. At a glance, anyone can see that the organization's cash is the largest part of its total assets and it has a much smaller percentage invested in works of art.

Talking about income statements

A statement of activities generally starts with total revenues and support. Then management and general, program and fundraising expenses are deducted to arrive at the overall change in net assets. A bar chart is a good way to present this information: It can compare in a single image current revenues and expenses with those of previous periods. By adjusting the bar graphs on, say, a monthly basis, nonfinancial board members will be able to compare revenues and expenses to the budget on a continuing basis.

Asset breakdown at one nonprofit



Your annual budget assumes a particular level of revenues and support. If you don't obtain certain grants — or if you take in less for program services than anticipated — your board will need to revisit anticipated expenses and adjust figures accordingly. A graphic image, such as a bar graph or pie chart, is one way to call "heads-up" quickly.

Tell a story via ratios

Because of the downturned economy, many organizations have experienced cuts in funding and other contributions. In response, they've had to reduce costs. Comparing the following ratios for the current year to the prior year can reveal whether these costs have been cut effectively:

- Management and general costs to total support and revenues,
- Program services to total support and revenues, and
- Fundraising expenses to total support and revenues.

These ratios allow your board to see if the organization's costs and revenues are in line with its expectations, as expressed, for example, in the budget. Let's say that your management and general costs are $100,000 for the coming year and the total support and revenue for the organization is $1 million. You'd have a highly impressive ratio of 1:10 — 10% of every dollar earned is spent on administrative costs, with the remaining 90% available to fund programs.

Need help?

Other reports can also be useful. For example, a cash flow analysis can be particularly valuable when an organization is in a cash crunch. Your CPA can assist you in selecting other information of value to present to your board. He or she also may be able to suggest formats that will help you best make your points to your board. ■

Should you buy or lease your headquarters?

Current economic challenges are leading many nonprofits to take a close look at their expenses. The costs of your facilities may be overlooked during a cost-cutting process because they seem unavoidable. But the choice between renting and buying property to house your organization can have substantial cost implications. This makes it important to evaluate the pros and cons of each option for your organization.

Leasing pros and cons

In general, the advantage of leasing your headquarters is flexibility, which is especially important in a rocky economy. You can test different locations to see which best fits your strategic plan and enables you to serve constituents. Increase or reduce your space as needed while you stabilize revenue sources.

You also may have opportunities to renegotiate your lease for more favorable conditions. This could include an early termination clause so, for example, you can move to a better location that unexpectedly becomes available.

But flexibility may go hand-in-hand with uncertainty. A less benevolent landlord might raise your rent significantly after a single one-year lease period, terminate a lease or fail to maintain the property. (One way to partly mitigate the first risk is to negotiate a multiple-year lease.) Or the landlord could sell to an owner who prefers other types of tenants or wants to use the space. You could relocate, but you'll incur moving expenses.

Moreover, if you need specialized facilities to do your work, you may find leasing options limited. A landlord might require you to pay for any necessary improvements, which would make you effectively captive to that building. You could face the choice between accepting steep annual rent hikes and abandoning the improvements you financed.

Buying pros and cons

Owning your headquarters provides you with a defense against displacement. This is particularly relevant in areas where commercial real estate values might soar, leading to the pricing out of nonprofits that lease.

Buying your own place also can give your organization higher visibility — an important tool for marketing and branding. The development process, including any capital campaigns, may draw attention from potential donors, clients and members. The actual building is a visual representation of your brand and positions the organization as a neighborhood anchor.

Ownership may provide several financial benefits that you can't obtain renting. Your facilities cost becomes predictable because you don't have to worry about rent increases. If you rent out extra space, you'll receive (potentially taxable) income from tenants. As you pay off the mortgage and if the property appreciates, you'll build equity, which you could use as a guarantee on future loans.

But the debt associated with a property purchase may render a nonprofit more vulnerable to economic swings such as the one triggered by the COVID-19 crisis. Purchases also have substantial upfront costs that leases don't. You generally must make a hefty down payment and pay closing costs. Renovations can further drive up the costs.

You'll also be responsible for capital improvements — for example, if the roof requires replacement or the boiler breaks down — as well as building management and maintenance. The latter usually aren't nonprofit core competencies, so you might need to hire a property manager. Alternatively, you could assign staff to those tasks if they aren't already stretched too thin.

Finally, real estate ownership generally means real estate tax liability. You might, however, qualify for property tax exemptions as a nonprofit. Your CPA can provide more specific information on eligibility requirements.

Decisions, decisions

The right choice for your organization will depend on its individual circumstance. With the rise of remote work in the shadow of COVID-19, some nonprofits might even find they no longer need as much office space — or any at all. Your CPA can help you determine the best course forward. ■

NEWS FOR NONPROFITS

Majority of charities worldwide report donation decline

A survey conducted by CAF America, a global nonprofit grant-making organization, found that 73% of the 880 organizations in 122 countries queried have seen a decline in contributions due to the COVID-19 pandemic. Half of those surveyed from April 30 through May 6, 2020, indicated that they expect to see revenue decline by more than 20% over the next year. Only 6% expect giving to increase.

These results line up with a recent report from the Fundraising Effectiveness Project (FEP), which is administered by the Association of Fundraising Professionals. It found that giving to charitable organizations in the United States and Canada fell 6% in the first quarter of 2020 compared to the same time last year, driven by an 11% plunge in March alone. Also see “COVID-19 forces a focus on operating costs” on page 2 for information on total revenue losses at nonprofits. ■

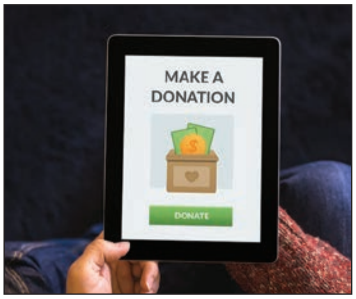
COVID-19 boosts possibility of NFP unionizing

The COVID-19 crisis has prompted a surge in interest in unionization among nonprofit employees. According to an article in the *Nonprofit Quarterly*, the pandemic “has created a sense of urgency around workers’ involvement in decisions about organizational directions and employee benefits.”

Unions, such as the Nonprofit Professional Employees Union (NPEU) and the Office and Professional Employees International Union, have seen a marked uptick in inquiries from employees about forming bargaining units for nonprofits. In August 2019, the article says, the NPEU was involved at 14 nonprofits; by May 2020, that number had almost doubled, with 27 bargaining units at some stage of recognition.

NPEU says it’s been receiving an average of one lead per day for potential bargaining units. In a 16-day period in April, seven workplaces announced organizing campaigns with the union. ■

Proposed legislation would expand charitable-giving deduction



Taking advantage of an opening provided by the Coronavirus Aid, Relief and Economic Security (CARES) Act, a bipartisan group of U.S. senators and representatives has introduced a bill that would increase the allowable above-the-line deduction for charitable deductions (S. 4032 and H.R. 7324). The CARES Act created a new $300 deduction for cash contributions to qualified charities in 2020, available to all taxpayers regardless of whether they itemize their deductions.

The bill would allow the above-the-line deduction for up to one-third of the standard deduction (around $4,000 for an individual filer and $8,000 for married joint filers). The deduction would be available for 2019 and 2020. Donors could treat contributions made after December 31, 2019, and before July 15, 2020, as made in 2019. A taxpayer would need to file an amended return to claim the benefit for 2019. ■

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.

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