

Advice for Nonprofits to Help Navigate the Crisis

8 min read



Key Takeaways

- A report from the Charities Aid Foundation of America found 67.93% of NonProfits are facing a *decrease in funding*, and 33.97% indicated an increase in operational costs. Nonprofits have been affected now more than ever with the current situation.
- Account any money you receive during funding as you would any loan: debit cash and credit a liability.
- Internal controls are *always* important, but are *especially* important during a time of financial instability.

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Stephen King, GrowthForce President and CEO, recently sat down with Tami Ledbetter Preece, an Audit Partner with [Blazek and Vetterling](#) to talk about what NonProfit's are experiencing now and how to get through this crisis.

Watch/Listen to the full Podcast [HERE!](#)

Blazek and Vetterling is the leading CPA firm that serves nonprofits, specializing in audit and assurance services, as well as tax and compliance from small business, small nonprofits to private foundations.

There is a lot of angst across the board surrounding what will happen with contributions for the upcoming year.

Here are some important points and resources for Nonprofits to help navigate the current crisis...

THE RIGHT MINDSET

You are not alone. [94.84% of all Nonprofit organizations](#) are experiencing a negative impact of the pandemic. However, like the for-profit world, the current crisis looks different in each sector of Nonprofits.

Some have been really significantly impacted by COVID-19 with concerns over limited resources. For example, direct service providers have seen a spike in demand. Ledbetter said, *"I have one client that provides counseling services, and they are at a 120% capacity because of this stressful situation. How do you provide counseling in a remote environment? How do you make sure that all of your contracted professionals or your employees are set up to deliver these services? It's been something that people have not had the luxury of planning."*

Other industries are suffering from the inability to open and operate. It's a really challenging time for those organizations that rely on events and in-person operations. For example, the performing arts and museums have already invested a significant amount of

money in planning for their season that is now cancelled. Many of them survive almost entirely off of ticket sales. *"Even as we open up, it's increasingly difficult to figure out how you're going to start providing those services. Organizations will need to balance the costs of provision of services."* Ledbetter added.

The first step is getting into the right mindset- this is not the end of the world.

This is a time to transform negativity and uncertainty into opportunities for learning and growth. Choose to have a position attitude of gratitude.

Resources Available for Nonprofits

The government quickly recognized the need to step in and help those of us that want to continue to support the community.

Tax Deductions

One of the biggest concerns for Nonprofits right now is: **will the economy get back in time for donors to be able to contribute?** *"Luckily, the government has encouraged giving by making it possible to have a deduction on your tax return even for those that just file the short form under standard deduction for contributions. It's a limited amount, but it is still encouraging."* Ledbetter said.

The [Coronavirus Aid, Relief and Economic Security \("CARES"\) Act](#) allows individuals to deduct up to \$300 in qualified charitable giving if they are not itemizing.

Family First Act

The government also unrolled the [Families First Act](#) that protects those employees that were significantly impacted by the pandemic, and require they have extended leave. Ledbetter said, *"They are now providing benefits for those that are impacted, whether if you've been directly impacted yourself, or you're having to care for a family member that has COVID-19."*

Payroll Protection Program

The Payroll Protection Program is designed to help you retain your employees and not have to furlough. The primary purpose of the **\$349 billion act** is to help save the economy and reduce the number of people on unemployment. It's available up to \$10 million.

The language of the PPP Loan says you must be paying **75% of your total salaries from your base period**: You can use 25% for certain operating expenses.

What's great about this loan is its ability to get 100% forgiven. [Here's a great guide](#) on how you make sure the money becomes a grant that is completely forgiven.

Economic Injury Disaster Loan

The Economic Injury Disaster Loan provides longer term funds at a very low interest rate.

"This is not quite as restrictive as the Payroll Protection Program. The EIDL is a loan that is not as subject to so many restrictions. It's also available to fund your operations and capital costs over a longer period of time." Ledbetter said.

Organizations can borrow up to \$2 million dollars, and Nonprofits are subjected to a low interest rate of 2.75% (compared to the small business at 3.75%). This can be paid out over an extended period of time: 30-years!

The main difference between the PPP and the EIDL? The EIDL **cannot** be forgiven.

Will this be a single audit?

How do you know if you are going to be in compliance with the rules? First, let's look at what a single audit is.

[A single audit](#) is a very stringent, federal compliance audit. The single audit was designed for those that receive multiple types of federal fundings, and all of the different funding

organizations would not require separate audits. *"It goes above and beyond a financial statement audit and for those that have not been through the process, it can be scary."*

The Payroll Protection Program will not be subject to a single audit!

However, do not be mistaken, this does not mean you will not be audited. **All of these funds are subject to audit.**

*"You're not subject to a single audit, but you are still subject to an audit. The SBA has said that they **will** audit all organizations that received more than \$2 million. If you received less than that, you're **subjected** to an audit. They haven't said how those selections will be made. I suspect it will be similar to IRS audits, where it's based on some particular factors that they think are more high risk. Maybe there will be a random selection."* Ledbetter clarified.

Who determines if you're in compliance?

The single audit is off the table but **you're still going to have to show economic uncertainty**. *Who determines whether or not you are in compliance?*

The answer: your bank. The SBA has made your bank the point responsible for determining compliance. Ledbetter said, *"You make the application through your bank and they will determine whether or not the expenses that you submit qualify."*

The SBA has come out with daily webcasts to update you on the fast evolving regulations. *"I would just encourage you to stay involved with looking at those webcasts and stay on top of all those rules and regulations that are changing so fast."* Ledbetter suggested.

Organizations have to have to show that you used the money for its intended purpose: 75% payroll and 25% for rent, utilities, and other "essential" expenses.

Use [this calculator](#) as a way to **track how much of your PPP funding will turn into a grant vs a loan you have to pay back.**

What Should a Nonprofit Treasurer or Controller be Doing to Advise Accounting of this fund?

Account any money you receive during funding as you would any loan: **debit cash and credit a liability.**

"A loan is a loan, until you receive forgiveness. Even the PPP is a loan. When the money comes in, you debit cash and you credit a liability. Not a short-term liability, but debt. The EIDL will be a longer-term debt so you'll have a current and long-term portion of that." Ledbetter said.

In the case of a PPP, you have a conditional contribution. If your year end arises before you're actually given forgiveness (for example, June 30th), then you would need to disclose that as a conditional contribution.

Ledbetter continued, *"When the contribution comes in and you have certification that you had qualifying expenditures and it's going to be forgiven, you will use that to pay down your debt. That would be your debit and your credit will be a contribution that would be recognized."*

What does the impact of this new remote world have on an organization's internal controls?

Internal controls are *always* important, but are *especially* important during a time of financial instability.

"I like to always remind clients that they need to keep the overarching principle of assets and the control of those assets separate, in separate hands. I also want to encourage people to document when their controls changed." Ledbetter said.

Ledbetter said best practices suggest making sure everything is in writing: ***"Document what you're doing so if you are being audited, it's audit-able."***

Remain cautious about how you go about services, to make sure you are in good stewards of the money that has been provided by the your donors and the community.

Make sure you keep separation of duties, even in a remote environment. *"You never want the person that's in charge of soliciting contributions to be the one that picks up the money and makes the deposit- nor do you want the person that is maintaining your general ledger to be the one that goes and makes the deposit."* Ledbetter said.

Tools For Success

To help you can get better control of your organization's financials and have the data you need for decision-making, we've put together a Crisis toolkit with 3 excel calculators.