



## Financial Management in the Time of COVID-19

Solid financial management is the cornerstone of successful land conservation. It takes money to acquire and care for land and easements, and it takes a solid understanding of budgets, reports and audits to ensure the money you raise is spent appropriately and reported accurately to donors, the community and the IRS. Financial management is challenging in the best of times. The unique circumstances of the COVID-19 pandemic require even more thought and care in financial management. Here are some related questions and answers, adapted from [BoardSource](#), to help guide your land trust through this difficult time.

### **Our land trust board has asked if we can use our capital campaign funds (or other restricted funds) for operating expenses during this COVID-19 crisis. Do we need to ask the donors, and do we need special documentation or would a phone call suffice?**

Many organizations that are in the middle or end of a capital campaign right now may be wondering if they can use those funds to keep their nonprofit running instead of opening a new facility. The short answer is, it depends.

If the campaign funds were restricted by a donor, then that restriction remains even during this COVID-19 crisis. You will need to contact the funder to see if they are willing to lift the restriction and allow you to use the funds for operating costs. Hopefully, most donors will be understanding and lift the restrictions—it's not the best time to put up a new facility, for example, when you may not even have the funding to sustain your existing facility. If the donor made a restriction, you should always follow their instruction and wishes. You shouldn't decide to ignore your donor's wishes for both legal and public relations reasons. It's important that you preserve their trust even in these extraordinary times.

One of the strengths of land trusts is that they have built funds to steward and defend their properties and conservation easements. Many of these funds are donor restricted, so it is important that land trusts consider short and long-term implications of attempting to modify those restrictions for other purposes. Keep in mind that you will need to steward and defend those properties in perpetuity, long after the current crisis has passed.

In most instances, land trusts should obtain written documentation that includes a signature with agreement to release the restriction. You might create a short (one to two paragraph) form that includes gratitude for their donation and asks if they would lift the restriction and give permission for the funds to be used for operating costs. There could also be a place for an electronic signature. Keep the form simple and easy for your donor to use. The level of documentation may also depend on the size of the donation. For a very small donation, a phone call may be all that's necessary with a written call record. However, most donations would warrant a document with a signature from, for example, the CEO or higher level program officer for a foundation or, for individual donors, the donor's signature. Consult with your attorney and/or financial advisor for the best approach in your situation. For accreditation, land trusts should retain written documentation of any changes a donor makes in restrictions.

If the board designated these funds as capital campaign funds, then they are not truly *restricted funds*—they are *board-designated funds*, meaning you can shift the intention of those funds. If that is something you are

considering, the board should discuss this approach and have a vote that is recorded in the minutes. If those funds were designated for stewardship and defense, then the board should use extra care in re-designating those funds as it could impact the ability of the land trust to fulfill its responsibility to perpetually care for its conservation properties and easements. Decisions should include a written analysis of the risks of this approach, how the land trust mitigated the risk and a plan to replenish the fund.

For more information on managing donor-restricted gifts, see [Practice 5B3](#). For more information on stewardship and defense funds, see [Practice 6A5](#).

**Our board has been discussing the impact this public health crisis is going to have on our revenue. What are we to do when the funding for some of our key programs is restricted? Are we allowed to redistribute restricted grants to overhead or other programs than the program it was intended to fund?**

A nonprofit organization cannot decide to spend donor-restricted funds for another purpose on its own without permission from that funder. The simple answer might just be to reach out to funders (whether private or government) and ask them if you can distribute the restricted funding differently. Whether or not it will be approved depends on a few factors: the individual funder; their thinking in this moment; and their relationship to your land trust and its programs. You and your board can prepare for those discussions before making this request by thinking through how moving these restricted funds to the most critical financial needs will help your land trust meet its core purpose and be even more relevant to your community in both the short and long terms. This is an opportunity to think about how land trusts can pivot in times of crisis to deliver their programs and meet their communities' needs in the most effective way. Land trusts are more relevant than ever as people are looking for places to recreate and connect with the outdoors. A number of foundations are [pledging to end business as usual](#) and do what they can to support their nonprofit partners. Now is the time to work with your funders to decide how in partnership you can help your community.

**When is it time to utilize our reserves?**

The current situation has presented land trusts with a tremendous challenge in terms of evaluating reserves—not only because this crisis was unexpected and we couldn't plan for it but also because, at least at this moment, we have no idea how long it will last. So, when thinking about using reserves, consider it in the context of this uncertainty. Organizations have to make decisions about the usefulness of their reserves. Will they be used as a way to fund a short-term deficit? Or a new project that will create longer term revenue? It may be best to think of their use for the latter purpose because of the uncertainty that reserves will be adequate to bridge the duration of this pandemic and the longer term financial impact on the land trust. Another option might be to keep your cash balance on hand and determine a more sustainable way of cutting costs, if possible.

For accreditation, a land trust needs to have an operating reserve sufficient to cover three months of operating expenses. If a land trust is not able to meet this requirement due to the COVID-19 crisis when it submits its application, document the board's thoughtful discussion about the land trust's financial situation and its analysis of the risks of various approaches before making a deliberate decision to use the reserves. The land trust will also need to provide a plan for rebuilding its operating reserve.

Because of that uncertainty, it is important to understand what your current run rate (rate of spending) is so you have an understanding of what your expenses extrapolated into the future means for your organization. Not only does having this information help you understand how long you can last at current spending levels, but it also keeps you from leaving your land trust with so few reserves that the organization would be dangerously fragile in the post-pandemic context. Organizations also need to be careful not to spend every dollar that they have (whether in bank accounts or reserves) without understanding what their “close down” costs would be if things didn’t turn around economically. Said differently, if land trusts use reserves to fund operations until they literally spend their last dollar, they will not only go out of business, but they will be leaving debts and obligations and making it impossible to give their employees a soft(er) landing via advance notice and/or severance. And, you can avoid a truly terrible scenario, which is to leave staff members unpaid for work done or benefits accrued. Before you close your doors look for ways to collaborate, merge with another land trust, or find a back-up holder for your holdings. All these options may require some level of resources to be successful.

For more information on building and maintaining operating reserves, see [Practice 6A4](#).

**Our land trust, like many others, has suddenly gone remote. With everyone working from home, we are in need of information on how we can maintain fiscal controls. We have multiple controls in place to ensure our donors’ funds are handled responsibly that require two or more people. Are there templates or best practices in remote work environments? How do we alter the procedure of two people opening the mail together?**

Anytime there is a disruption to normal business procedures, organizations need to evaluate current operating norms to decide how the crisis could impact internal controls. Maintaining a bit of flexibility in financial controls, while ensuring they maintain their proper functionality and basic integrity, is key in disruptive times.

Here are some short-term suggestions:

- Reach out to your audit firm, as they are familiar with and will have documented your land trust’s internal controls. The firm will likely be able to make recommendations for both the short term and long term.
- Obtain a current and accurate list of all anticipated grant payments and other accounts receivable. Have at least two people monitor these payments and make sure the list is maintained and current at all times and electronically accessible.
- Contact those entities that owe you money and send them instructions on how to pay electronically via ACH (automated clearing house) or wire transfer. If you don’t have those instructions, obtain them from your bank. It’s a fairly standard request.
  - If entities say they have already sent a payment via check to your office, consider offering to pay any stop payment fees and ask them to pay via ACH/wire.
- Contact your normal vendors and ask to start paying them via ACH, on their website or by credit card.
- DO NOT forward mail to any staff person’s home address.
- Utilize technology where possible to monitor internal control processes. For example, use shared spreadsheets for cash receipts or a Zoom video conference to open mail if one person goes to the office for the mail.
- If the requirement for checks to have two signatories is an internal organizational process, rather than required by a bank, use technology to document the second signer’s approval, such as through email, Google Docs, shared drives or other electronic signature applications, such as [HelloSign](#).

- If your bank requires two signatures on checks, consider these alternatives:
  - Utilize the U.S. Postal system to send checks between the signatories
  - Contact the vendor and ask to pay using an electronic method (credit card, website, ACH)
  - Contact the bank and ask for a temporary change to the signature rules

All of these short-term suggestions include creating and documenting a plan on how to handle cash receipts, cash disbursements and payroll, as well as closely monitoring the plan's execution. This approach may require individuals who are not typically engaged in these processes to become more involved on a short-term basis. Having multiple people have access to the tracking of the day-to-day finances is critical in this time. Remember to document how the board decided to modify your procedures and that it considered the risks of misuse or misstatement in the new procedure and how to mitigate them (such as a level of board oversight).

Over the longer term, consider an investment in accounts payable technology, like [Bill.com](#) or [mineraltree](#). These automated solutions offer built-in internal control procedures, which are customizable for all sizes of organizations. These systems typically take a few weeks to a month to set up, but the benefit is well worth the effort, not only from an internal control perspective but also an efficiency perspective.

For more information on internal fiscal controls, see [Practice 6D1](#).

#### **Other Resources**

- [Closing Down the Right Way](#), Blue Avocado
- [COVID-19: What Nonprofits Should Do Right Now](#), Nonprofit Finance Fund
- [Grant Seeking During the COVID-19 Crisis](#), Grants Plus
- [An Introduction to Mergers for Land Trusts](#), Land Trust Alliance, 2017
- [Operating Reserves with Nonprofit Policy Examples](#), Propel Nonprofits
- [Sustainability to Survivability: 5 Nonprofit Finance Must-Do's in the Time of COVID](#), Steve Zimmerman, *Nonprofit Quarterly*, March 19, 2020

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