

What Is the Private Nonprofit Sector Going to Look Like In the New Post-COVID Environment?

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Only one thing about COVID seems certain: uncertainty. That has been more than adequately demonstrated since the pandemic erupted. It also seems that the virus will not go away anytime soon.

This article summarizes some of the specific effects the nonprofit sector is experiencing such as remote work environments, remote learning, absence of large gatherings, less travel and the like.

As just one example, the absence of large gatherings and less travel translates into major disruptions of the ability of trade and professional associations to hold their normal conferences and conventions, which besides the structured educational components, also serve as networking opportunities for members, and as net revenue generators for the associations.

This article specifically discusses only private nonprofit organizations — other than healthcare, but some other organizations can look here for examples of similar concerns. Governmental educational institutions have many of the same issues as private institutions. Healthcare organizations have some of the same concerns about fundraising, governance and general management, and investment management as do other organizations.

Of course there is much overlap among the areas detailed in the article. Most educational organizations and public-centered organizations also depend heavily on fundraising, many charitable and cultural organizations

have members, many member-centered organizations have charitable affiliates, etc.

Overarching Issues for the Nonprofit Sector

Effects on general organization operations and financial reporting

- Management must make adjustments in internal procedures and oversight — especially when staff (paid and volunteer) may be working remotely — to ensure that organization functions are being carried out as intended. There will most likely be additional costs involved, which may be partly offset by savings on rental of office space no longer needed.
- Management must keep governing boards informed about the effects of the virus on the organization and its constituents.
- Maintaining financial liquidity, including an available line of credit, to be prepared for the unexpected (and the expected) is more important than ever. This sometimes requires management to judge between competing priorities: Should we spend now in response to the immediate crisis, or keep more in reserve for the future crisis we know is coming? Merging with another nonprofit organization might be considered. Even if the organization is financially healthy at the moment, there should be a Plan B and C, especially if the organization is greatly dependent on one or a few sources of support.
- In-person activities such as on-site office work, meetings, performances, social events and some programmatic activities such as soup kitchens may

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necessitate medical testing of participants, which is costly.

- Extra consideration must be given to possible impairment of assets like non-publicly traded securities, non-financial assets such as inventory, real estate (e.g., owned rental property which is now (or soon to be) vacant because the tenant went out of business or may be about to), deferred charges and goodwill. The allowance for uncollectible receivables — especially pledges — is always a sensitive area; it is more so now.
- Organizations conducting any group activities — even with appropriate precautions — should have insurance in place to cover liability for defense and payment of claims that infections occurred in connection with these activities.

Effects on fundraising

- Donors of all types are themselves often in strained financial circumstances due to loss of jobs or reduced work hours (individuals), reduced tax revenue (governments), reduced profits (businesses) or reduced investment income (foundations). This may limit their ability and willingness to give. (Many organizations have initially seen an increase in fundraising efforts but time will tell if this is prolonged.)
- The elimination for 2020 of the required minimum distribution from IRAs held by those over age 70½; (will that be repeated in the future?) has removed one incentive to giving by these people.
- Management must maintain open communication with current and prospective donors about the effects of the virus on the organization and how management is dealing with them.
- If unspent restricted gifts on hand were given for activities that now have a lower priority or those that cannot be carried out in the current environment, maybe the donors would agree to re-purpose their gifts for now-higher priority activities or for unrestricted purposes.

Effects from limitations on travel

- Organizations that do hold meetings will likely see reduced attendance. (See the related points below under educational and member-centered organizations.)
- Organizations should look at event insurance to determine if they have the appropriate insurance in case of future cancellations and what is covered in the policy.
- Technology improvements may be needed to offer meetings and other events virtually.

Effects related to remote work and learning

- Additional internal controls and management oversight will be needed to assure compliance with proper procedures, especially when staff size is limited.
- Additional technology issues will need to be addressed, and related costs incurred. (See effects related to technology section below.)
- Auditors will have additional challenges in documenting and evaluating the design and effectiveness of internal controls.
- Volatility in investment markets will require additional attention by management and governing boards to monitor investment portfolio performance and oversee outside investment managers.

Effects related to technology

- Virtual activities such as classroom teaching, musical performances and office operations will require specialized technology to be acquired and operated, with technical support readily available in real time to deal with the inevitable problems. Additional costs will be incurred.
- Increase in technology resources to ensure the entity is protected against cybersecurity attacks has become essential with the remote working environment.

Effects on Specific Types of Organizations

Effects on charitable organizations and others that depend heavily on donated support

- Social service organizations such as food banks, soup kitchens, counseling services, charity clinics, etc. are seeing increased public needs by those who have suffered reduced personal income and/or increased personal stress, together with a need to maintain social distancing, engage in additional sanitizing and enforce mask requirements with clients.
- At the same time, fundraising may be more challenging as noted previously. The additional effort required to obtain needed resources will likely result in a higher ratio of fundraising expenses to contributions raised and a lower ratio of program expenses to total expenses. These ratios are looked to by many — rightly or wrongly — as meaningful indicators of an organization's 'worthiness' as a recipient of charitable gifts. Organizations must be able to explain their ratios to donors and to the public.
- Grantmaking organizations that rely on their endowment to generate the cash to make grants must continue to be prepared for greater volatility in investment markets, and a potential reduction in investment returns. They should be cautious about

making long-term funding commitments without having certainly available cash. At the same time, they are likely to receive additional requests for funding by other nonprofit organizations which are themselves experiencing financial stress.

Effects on educational organizations

- Remote learning will require additional resources devoted to the required technology, training and support of teachers and students.
- Students might decide not to re-enroll next year. Some may just take a year off; others may never come back.
- Some residential institutions may find themselves with underutilized housing and dining facilities, and all institutions with underutilized meeting facilities, which still must be maintained.
- Limitations on travel will affect the ability of students from foreign countries, and in some cases even from other states, to attend in person, ability of students to study abroad, ability of faculty and students to attend educational conferences or collaborate in research with colleagues at other institutions, and of athletic teams to travel to games.
- In-person group activities such as classes, meetings and athletic events may be limited to only the permitted number of attendees/participants, require re-configuring of meeting spaces, require additional medical testing, and require facilities for sequestering persons who test positive.
- Sports, by their nature of close personal contact, heavy breathing and travel to game locations, requires special care to ensure safety of athletes, coaches, staff and fans (if allowed).
- Educational institutions have to answer to a larger variety of constituencies than most nonprofits. Besides students, there are parents, faculty, staff, donors, alumni, regulators and residents of the town where the institution is located, all of whom have — sometimes competing — agendas. For example, after

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a period of remote classes, students may want to return to campus sooner than the faculty or community want them to.

- On-campus student organizations, such as academic and social clubs, performing arts groups and service organizations will likely be constrained as to how, when and where they can be active.

Effects on member-centered organizations

- Increased unemployment and business failures will reduce the ability and willingness of members to join the organizations, advertise in the organizations' publications, and participate in meetings and other programmatic activities of associations and clubs.
- Charitable and educational affiliates of such organizations will be subject to the same issues as discussed under those headings above.

Effects on public-centered organizations

- Visual arts organizations are having to deal with limitations on their activities, such as availability of non-owned venues, permission by local governmental authorities to hold live in-person events, willingness of visitors to attend exhibitions and the ability to enforce protective measures, such as limitations on numbers of visitors, use of masks, sanitizing and social distancing.
- Performing arts organizations have the same issues as visual arts organizations, plus willingness of performers to gather for rehearsals and performances, and of audiences to attend.
- Cultural organizations may be limited in their ability to bring performers from other countries or make foreign tours.
- If they plan to have virtual exhibits/performances, the specialized technology involved will have to be acquired and operated. A decision needs to be made about how to charge 'attendees' of virtual events: the same as for live events, reduced charge, free. Also, since the experience by attendees at such events is not the same as at live events, participation may be lower, which may also lead to a reduction in contributions.
- If in-person events are limited or canceled, besides less revenue from admissions or ticket sales, there will be a reduction of revenue from sales by the organizations' on-site gift shops. This might be partly made up with online sales.

Effects on religious organizations

Note: "Religious organizations" is a very diverse group, including all the above types and considerations discussed previously.

- Organizations that send missionaries to foreign countries may have limited ability to do so.
- The unique aspect here is group worship and other services that may be limited or prohibited as well as carrying a high risk of spreading the virus if they are even being conducted.

Management and those charged with governance, as well as committees they may have established to address these issues, need to be involved and monitoring these and other issues on an almost daily basis. The ability to adapt to this ever-changing environment and the needs of your stakeholders is critical to the ability of your organization to not only survive these times but to thrive in the current environment and in the future. The organization should consider posting regular updates on the status and effect of COVID-19 on their websites and make them available to stakeholders. Communication is critical to managing these risks and answering the questions of your stakeholders.

Please contact us at info@capincrouse.com with questions or to discuss how we can assist you.

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