UNCHARTED TERRITORY
The coronavirus pandemic presents new and complex challenges to nonprofits
‘Uncharted territory’

Already facing serious challenges, nonprofits now find themselves struggling even more in the coronavirus era

By Antoinette Alexander

Operating a nonprofit is not easy. Fundraising issues, limited staffing, and lack of resources are just a few of the challenges that have long plagued the sector. Now, throw into the mix the COVID-19 global pandemic, leaving in its wake alarming devastation and uncertainty. Given this, today’s nonprofits are facing a perfect storm of epic proportions, and the role accountants can play in helping them navigate the turbulence has perhaps never been more important.

“Most of the time when nonprofits are in these kinds of situations, they are very inwardly focused. … I think they are dying for information and they don’t have the time. So, it is up to us as being the caring practitioners and trusted advisors to get out there and talk to them about what their needs are and hopefully we have the skill set to fix it,” said Tom Raffa, national leader of Marcum’s Nonprofit & Social Sector Group in Washington, D.C.

In the United States, the coronavirus pandemic is straining health care systems, service delivery systems, businesses, and the personal lives of millions. Nonprofits are no exception.

Consider this: A March survey conducted by the Center for Non-Profits, in partnership with the Council of New Jersey Grantmakers, on the initial effects of the COVID-19 outbreak found that 87 percent of organizations had reported significant or moderate disruptions to programs or operations.

In addition, Community Health Charities conducted a March survey of its nonprofit partners and found that 73 percent had already canceled a fundraising event due to the pandemic, resulting in a cumulative financial loss to these nonprofit organizations over the next three months alone of $64.4 million.

These findings are obviously just a small sampling of the newfound challenges rippling across the nonprofit sector. Even before the pandemic, however, nonprofits were no strangers to strong headwinds.

“Nonprofits are always working in a challenging environment. It is never an easy time for nonprofits and there are several reasons for that,” said Mig Murphy Sistrom, a principal of Durham, N.C.-based Mig Murphy Sistrom CPA.

Funding: An ongoing struggle

Raising funds for their cause has long been a leading struggle for nonprofits, and increased demand for more transparency and greater accountability from donors has further raised the stakes.

In fact, the 2019 “Nonprofit Outlook Survey Report,” sponsored by Top 100 Firm Wipfli, found that 25.5 percent of survey respondents ranked fundraising/funding as the top challenge for their organization. This was followed by recruitment/workforce at 22.2 percent.

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In addition, the BDO Institute for Nonprofit Excellence’s annual “Nonprofit Standards” benchmarking survey released in 2019 found that 39 percent of respondents said that seeking new sources of revenue or funding was their top priority for 2019.

These findings come as little surprise as nonprofits, which face more stringent budgetary constraints compared with for-profit businesses, largely sustain themselves through donations, government funding and grants.

“The challenges seem to be consistent from year to year. A big issue that we’re finding with our clients, and people who call us, is getting the funding they need to expand and provide more services,” said Joseph Scarano, CEO of Araize, a provider of cloud-based software solutions and services for nonprofit organizations.

Continued Scarano, “There’s been a downturn in available governmental funds, cutting certain social service programs, which impacts nonprofits. With the tax [law] changes that went into effect, eliminating the itemized deductions, a lot of people felt that that was going to impact charitable contributions. It turns out that really has not been the case. … But it seems like the smaller nonprofits end up with a never-ending cycle of not having enough money or resources to focus or expand their mission.”

There are many elements that come into play when it comes to nonprofit funding. And while there’s no one-size-fits-all formula, a nonprofit’s size and mission are certainly major factors.

As the National Council of Nonprofits noted in its 2019 “Nonprofit Impact Matters” report, “Small to midsized nonprofits tend to rely more heavily on donations from individuals and grants from foundations, as do nonprofits focused on the arts, culture and humanities, as well as those focused on the environment or animals.”

On the other hand, “Hospitals, other health care entities, and education institutions — all of which tend to be larger — receive more in private payments for services. And nonprofits providing human services and health care (including hospitals) tend to earn payments from governments,” the report stated.

Fueling concern is the fact that, according to BDO’s 2019 Nonprofit Standards survey, many nonprofits direct most of their spending toward program-related activities. While this certainly helps organizations bring their mission to life and advance their cause, it can also leave them vulnerable and lacking a financial safety net should funding sources unexpectedly dry up. If a nonprofit is already operating on an inadequate supply of reserves, encountering a funding disruption or losing a significant donor can prove even more detrimental.

The proper amount of operating reserves will vary from one organization to the next — depending on size, scope and sector — but, according to BDO, establishing a nest egg with at least six months of operating reserves is recommended. However, the Top Eight firm’s 2019 Nonprofit Standards survey found that more than half of organizations (63 percent) fell short of that target, and 34 percent had between zero and four months of reserves on hand.

Part of the issue stems from the fact that, oftentimes, those within a nonprofit who are tasked with financial management are not accountants. They often lack the expertise needed to deliver meaningful financial reports that support better decision-making, and the expertise needed to ensure compliance. This presents a challenge for nonprofits, but also an opportunity for the accounting profession. Enter outsourced accounting services.

“We’ve seen an uptick in CPA firms that do outsourced accounting for nonprofits. So, we’ve made some changes to our software and to our pricing to work with CPA firms that want to use better accounting software to better serve nonprofits,” said Ian Scotland, general manager and vice president at AccuFund, a provider of accounting and financial management software for nonprofit, local municipal and government organizations.

Under the program, accounting firms that provide outsourced accounting services to nonprofits can use AccuFund’s cloud solution to do the day-to-day account-
New challenges for nonprofits

Tapping (the right) talent

Despite the fact that U.S. nonprofits employ the third-largest workforce, with 12.3 million paid workers according to a report by Johns Hopkins Center for Civil Society Studies, staffing is another significant hurdle facing many of them.

Citing stringent budgetary constraints that may impact a nonprofit’s ability to pay employees competitive salaries, Wipfli’s Nonprofit Outlook Survey Report found that 22.2 percent of nonprofits listed recruitment/workforce as their top challenge.

It’s a challenge that several industry sources, including Marcum’s Raffa, see firsthand. “One of the things that seems to be consistent is just staffing. There’s a real competition for staff. … There’s this concept, overall, that is very sort of pilgrim-like, that if you’re doing good work, you shouldn’t be making good dollars. Because of that it does minimize, not the quality of the staff, but to some degree your ability to select the best and the brightest,” he said.

He noted that those nonprofits that believe doing good work and making a good living are not mutually exclusive are likely to reap the benefits. “The times when you see the nonprofits sort of blossoming into that and hiring maybe somebody out of industry or maybe paying that little extra for somebody, they tend to be the more successful nonprofits,” said Raffa. “Now, people can look at those and [think], ‘They’re making the money so they can afford it.’ But I would contend that, in a lot of cases, they made the decision to pay the little extra for somebody and that person was able to raise money and raise awareness and do more work.”

It is also important not to underestimate the power of culture within an organization, and the strong connection that should ideally exist between employees and the mission of the nonprofit. Underscoring this point, BDO’s 2019 Nonprofit Standards survey found that more than one-third of organizations that experienced a net loss in revenue in the prior year had ranked “Disconnect from the mission” as a high to moderate challenge, compared with 21 percent of those who cited net growth in income.

“At the end of the day, nonprofits are only as good as the people that they have. You have to have good resources. Oftentimes you see turnover. It is not uncommon in the nonprofit sector to have a lot of turnover. Trying to encourage and build that culture internally at your nonprofit organization is a better chance of retaining staff,” said Jonathan Urban, director of software solutions at the nonprofit technology division of Brisbane Consulting Group in Buffalo, N.Y.

Uncharted territory

Clearly, nonprofits are no strangers to challenges. Navigating funding angst, staffing issues, lack of resources and budgeting constraints, as well as regulatory changes, have been long par for the course. In recent months, however, they have been thrust into uncharted territory with the impact of COVID-19.

Accounting professionals and their nonprofit clients are still trying to fully grasp what it all means for the sector as the situation evolves, but what is certain is that the pandemic is impacting different nonprofits in different ways and, for many, technology is proving to be a crucial lifeline.

One of the biggest shifts impacting nonprofits, and the firms that serve them, is the swift migration to a remote work environment as states enacted stay-at-home orders. Underscoring this point, Wipfli’s 2019 Nonprofit Outlook Survey Report found that more than half of respondents were working remotely or on a temporary basis.

“We had a mostly in-office workforce [among nonprofit customers] that almost immediately had to go remote. We saw within the first two weeks what that meant to these organizations that had always been bricks-and-mortar and how that works. One, their servers were all on-premise; the other would be being able to provision and get users out on laptops and in their homes and working,” said Jennifer Bonenfant, senior application consultant for Serenic Software, a provider of cloud ERP solutions for public service organizations. “So, one of the things specific to Serenic that we have is a robust web client. That web client supports functionality across a number of different devices. … And then being able to lift those databases up and out of bricks-and-mortar server farms, on computers locally in offices, to the cloud, and being able to do that quickly has really helped with this overnight transi-
tionality and mobile giving is enabling nonprofits to better connect with constituents and help drive donations during these times of need.

“Through their data mining and research that they have, they can identify high-net-worth donors who might not have that much of a financial impact [from] COVID-19. So, they are reaching out and asking for donations and asking for help to keep their doors open. They are not doing blanket appeals to everyone. They are doing more targeted appeals,” said Scarano of Araize.

“That’s where technology really helps. If they have a database, they can identify who their top donors are, their donors who have consistently donated over the years, and reach out to them in this time of need.”

Jeff Bergman, CFO of Aplos Software, which specializes in software-as-a-service for nonprofit organizations, said that the company is working to help nonprofits better connect with constituents. Examples include its Text to Give add-on feature for mobile giving, and Bulk Texting, which allows users to efficiently communicate with large groups of constituents.

“We’re making a lot of improvements to that side of our platform right now. It’s specific to helping the organizations stay in business. … That’s where we’ve seen the greatest need right now,” Bergman said.

**CARES Act**

When it comes to navigating the evolving regulatory environment, there’s no doubt that the recently enacted (at press time) Coronavirus Aid, Relief, and Economic Security, or CARES, Act is front and center for many of today’s nonprofits and the accounting professionals who serve them. And for good reason.

“Most nonprofits are feeling the same thing as every other business that is being shuttered now. Some of them had to furlough employees, had to lay off employees. Our customer base runs the gamut from every imaginable type of nonprofit and right now the ones that are feeling the biggest pain in this nationwide shutdown are the arts-related nonprofits. Virtually their entire revenue stream is attendance … and so since they could no longer hold productions and really do their mission, their revenue has pretty much dried up,” said Scarano of Araize.

“The calls that I’ve been getting from those organizations are, what avenues do they have for additional sources of revenue? … employee options for unemployment?”

And while it’s still too early to gauge the full impact on individual donations, one can suspect that they will be negatively impacted as millions of Americans face unemployment or reduced work hours.

“I think the places that thrive on individual donations is more likely to see a downturn than places that rely on foundation grants and government grants. Even though, I think individual donations are a more sustainable way in the long run to have a healthy nonprofit because you’re less reliant upon [grant cycles], at the same time, I think that they are more affected by cyclical stuff like this,” said Scotland of AccuFund.

**A lot of nonprofit managers have been confused about, “What are these new programs? How do they affect us? What do we have to do and what can we do to get funding?” So, we’ve been reaching out to clients almost daily with news updates and giving them links, tools and advice.”**

As outlined by the National Council of Nonprofits, the CARES Act includes several key provisions of sector-wide interest to charitable nonprofit organizations, including:

- **Paycheck Protection Program loans:** This creates an emergency loan program providing loans of up to $10 million for eligible nonprofits and small businesses, permitting them to cover costs of payroll, operations and debt service, and provides that the loans will be forgiven in whole or in part under certain circumstances. (At press time, the initial funding for this had run out, but Congress was negotiating extra money.)

- **Economic Injury Disaster Loans:** This provides emergency grants for eligible nonprofits and other applicants with 500 or fewer employees, enabling them to receive checks for $10,000 within three days.

- **Charitable Giving Incentive:** This creates a new above-the-line deduction (a universal or non-itemized deduction that applies to all taxpayers) for total charitable contributions of up to $300. The incentive applies to cash contributions made in 2020 and can be claimed on tax forms next year. The law also lifts the existing cap on annual contributions for those who itemize, raising it from 60 percent of adjusted gross income to 100 percent. For corporations, the law raises the annual limit from 10 percent to 25 percent. Food donations from corporations would be available to 25 percent, up from the 15 percent cap.

While expressing gratitude that the CARES Act includes provisions that provide some nonprofits with a measure of relief, more than 200 national nonprofit organizations sent a letter to congressional leadership on April 8, calling on them to include a “Nonprofit Track” in any future legislation that builds on the CARES Act.

Specifically, the letter urges Congress to make several adjustments, including:

- Expand nonprofit access to credit by designating funding exclusively for nonprofits within the two principal loan programs established in the CARES Act.
- Encourage immediate donations by enabling taxpayers who make donations on and after March 13 and before July 16 to claim the deductions on their 2019 tax filings (applicable to itemized and above-the-line deductions).
- Enhance the charitable giving incentive by increasing the $300-per-person cap.

Navigating the intricacies of the CARES Act, and any related future legislation that may arise, can be daunting and confusing to say the least. Helping nonprofits unravel the details and better understand how it can benefit them presents a significant opportunity for accounting professionals.

“Accountants need to really be looking at the cash flows and taking very close watch of where contributed revenue and earned revenue is coming in. They should be doing that anyway, it just becomes more important today to have a stake in the ground on where is money coming in and where is money going,” said Cheryl Gipson, social impact industry principal at software provider NetSuite.

“The other thing they can do is they can learn more about the CARES Act. … Part of what they can be doing is working with their development directors, their executive directors and their board leadership to make sure that they get all of the paperwork in place because there’s a lot of paperwork for the Paycheck Protection Program.”

Sistrum of Mig Murphy Sistrom agreed, and said, “A lot of nonprofit managers have been confused about, ‘What are these new programs? How do they affect us? What do we have to do and what can we do to get funding under the CARES Act, etc.?’ So, we’ve been reaching out to clients almost daily with news updates and giving them links, tools and advice on understanding how these new acts apply to them.”

These are challenging times for many nonprofits. Accounting professionals can further strengthen their relationships with nonprofit clients by helping to guide them through the uncertainty.

Said Marcum’s Raffa, “We often spend a lot of time doing what we call an ‘opportunity assessment.’ Now, they typically happen when change occurs that the nonprofit didn’t cause to happen. … What we look for, as a firm, is to say, ‘Let’s look at the opportunities that are there and let’s decide what we did well and how we can put the resources into that to move forward.”