Navigating the impact of COVID-19 on not-for-profits

Nonprofits have been profoundly affected by the pandemic. Given the myriad of issues facing nonprofit organizations who are being asked to do even more with less, it is challenging for leadership to consider the full impact of COVID-19. It is critical at this time to identify both short- and long-term issues impacting nonprofits and to define the actions management can take to thoughtfully navigate our current environment.

Top 8 immediate impacts
The impact to your organization in the near term will be wide-ranging:

- Immediate loss across a variety of revenue streams (attendance, membership/services, earned revenue, etc.) and reductions in contributions, grants, and governmental funds
- Additional operational complexity and expenses (service provision, remote workforce, international operations); strain on third-party contractual relationships
- Reduction/changes in mission-related activity to constituents
- Stress, dislocation and dilution of workforce
- Portfolio volatility and changes in endowment spending
- Compromises to financial, operational, and technology controls
- Difficulties in meeting regulatory obligations and deadlines
- Risk of non-compliance with debt covenants

Looking at future impact & opportunities
As the COVID-19 pandemic moves with rippling effects to every aspect of society, it will cause potential longer-term implications that need to be addressed in four critical impact areas.

Liquidity & cash flow management
- Uncertainty in mix/type/amount of revenues going forward
- Operational complexity and potentially outsized expense structure given new operating norms
- Current financial and operational models no longer reflect reality, limiting ability to manage ongoing business
- Constraints on working capital to provide sufficient solvency and serve ongoing operational needs
- Reduced capability of investment portfolios to provide operational support
- Inability to demonstrate financial health to external parties and to meet debt covenants

Resiliency starts with a commitment to identify and mitigate risk factors that can further disrupt your organization.
Supply & demand
• Lack of alignment between programs/services and capacity (labor, materials, infrastructure, etc.)
• Strain on tools and technology as a result of changes in program/service delivery, grant activity, and operations
• Change in nature of constituent engagement and preferences
• Need/opportunity to engage volunteers in new ways
• New and unanticipated enterprise risks due to changes in business model

External factors
• Greater interest in strategic alliances
• Competitive pressures to consider alternate models
• Additional compliance needs associated with government relief programs
• Enhanced complexity of international operations

People
• Changing personnel expectations, compensation/benefits, and contracts
• Program/service and administrative transformation, reductions, and training
• Evolving workforce expectations and culture
• Mental and physical health needs, volunteer and staff screening and associated expenses
• Modifications to collective bargaining agreements
• Increased stakeholder communications
• Greater board engagement

What nonprofits should consider now
Immediate
• Focus on ensuring access to quality programs/services
• Protect the safety and wellbeing of constituents, staff and volunteers
• Consider furloughs or other staff reduction strategies

• Develop revised cash flow and other models
• Focus on recovery funding assistance (insurance, CARES, FEMA, etc.); track and document support for recovery funding
• Develop a crisis communication plan for donors
• Assess potential operational, financial and technology control gaps in light of remote work environment
• Identify constraints to compliance with short term tax, regulatory and financial reporting requirements
• Adjust policies to reflect remote work arrangements

Long term
• Preserve and manage cash flow; revisit lending terms
• Assess investment portfolio composition, performance and spending; re-evaluate reserve levels and funding strategies
• Consider workforce optimization and transformation
• Revisit strategic plan; consider strategic revenue enhancement/cost reduction opportunities
• Revise information technology strategy
• Consider strategic alliances, alternative business models
• Update enterprise risk management model
• Consider new forms of volunteer engagement
• Assure clear, transparent communications with all constituents
• Modify culture and compensation to meet personnel needs
• Expand mental and physical health support services
• Address stakeholder and third-party demands for change (board, unions, foreign governments, etc.)
• Revise business continuity/disaster response plans; develop and document lessons learned
• Resume strategic pre-pandemic initiatives

We are here to help
Grant Thornton is focused on identifying opportunities for change that will have an immediate impact. As nonprofits seek to respond and restore in this highly uncertain and constantly changing environment, we provide industry-specific audit, tax and advisory services to help you position for success in the near- and long-term.

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