

WHAT IS THE PRIVATE NONPROFIT SECTOR GOING TO LOOK LIKE IN THE NEW POST-COVID ENVIRONMENT?

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 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.