Top Considerations for the Nonprofit Sector, Part One

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Since navigating the headwinds of the past year, nonprofit organizations have reimagined their operations to maintain relationships with donors, volunteers and the communities they serve while discovering new means to protect mission funding. Even so, the impacts of the pandemic and calls to further social justice work won't subside overnight, leaving many organizations continuing to reassess their processes, approaches and impact.

In this first blog of a two-part series, we outline five of the top 10 considerations nonprofits are contending with and how organizations can approach them:

1. **COVID-19 Relief Funds**

Since the outbreak of the COVID-19 global pandemic, some nonprofit organizations have benefited from different types of federal financial aid. These include the Paycheck Protection Program (PPP), Economy Injury Disaster Relief (EIDL) and the Main Street Lending program advances and loans, the Higher Education Emergency Relief Fund (HEERF), the Employee Retention Credit (ERC), the Families First Coronavirus Response Act (FFCRA) paid sick and child care leave and related federal tax credits, shuttered venue relief, special relief for hospitals and health care providers, and the ability to defer certain federal payroll deposits interest-free. To ensure compliance, nonprofits should consider the following questions:

- Is your organization covering the same cost by two sources of stimulus funding?
- Are your costs and stimulus aid accounted for appropriately? Consider whether the funding is a loan or revenue, and investigate potential debt covenant implications. Be mindful of maintaining appropriate controls to process your funding and complying with the specific requirements related to your federal assistance, such as the Single Audit.

Organizations should involve auditors, bankers and key board members in discussions around managing and abiding by the various requirements of pandemic-related federal financial aid. Nonprofits should be cognizant of any federal program rules (which frequently change) and should be sure to document the organization's compliance with those requirements.

2. **New Accounting Standards**

The Financial Accounting Standards Board (FASB) Accounting Standards Update ASU 2016-02, Leases, is now effective for many nonprofit organizations. The impacts of adopting ASU 2016-02 include:

- Lease arrangements have to be classified as either finance leases or operating leases.
- The right-of-use asset model, which shifts from the risk-and-reward approach to a control-based approach.
- Lessees will recognize an asset on the statement of financial position, representing their right to use the leased asset over the lease term and recognize a corresponding lease liability to make the lease payments.

- The lease liability is based on the present value of future lease payments using a discount rate to determine the present value based on the rate implicit in the lease, if readily determinable, or the lessee's incremental borrowing rate.

To prepare, organizations should discuss the new lease standard with their accounting advisors and evaluate the impact the standard will have on all facets of the organization's leasing activities. Organizations should also identify and classify all leases based on the criteria in the ASU, and prepare financial statements based on their guidance to determine whether the organization has any potential issues with meeting current debt covenants as a result of recording these leases. Lastly, organizations should review current lease disclosures and update them to meet the ASU's criteria.

The FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to increase the transparency of the presentation and disclosure of these items. Important items to note are:

- The ASU should be applied retrospectively to all periods presented and is effective for annual reporting periods after June 15, 2021 and interim periods within annual periods after June 15, 2022. Early adoption is permitted.
- The ASU requires that contributed nonfinancial assets be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets.
- The ASU outlines specific disclosures related to contributed nonfinancial assets that organizations will have to add to their financial statements.

To prepare, organizations should discuss the new standards with their accounting advisors and evaluate the impact the standard will have on the presentation and disclosure of contributed nonfinancial assets.

3. **Cybersecurity and Breaches**

As many nonprofits have moved to adopt a fully remote or hybrid work environment, there are significantly more employees working from home, using personal devices, internet providers and cybersecurity practices that likely aren't as robust as an organization's systems. As a result, there has been an increase in cybercrime, and these occurrences are only expected to continue to rise as bad actors become more advanced. This is especially harmful to nonprofits because of the sensitive information they may have in their records pertaining to staff and the communities they serve. A breach could present significant reputational risk and damage future fundraising efforts and partnerships.

For this reason, it's imperative that nonprofits prioritize risk management to implement procedures to safeguard against cyberattacks as well as prepare their organizations to respond to a cyber breach. Organizations should develop a robust plan and implement procedures to guide the steps the organization will undertake if a breach were to occur.

4. **Sudden Increased Use of Technology**

For some organizations, remote work has highlighted their reliance on manual workflows. Certain internal processes that worked before, such as cross-organization collaboration in communal workspaces and in-person reviews of invoices, are no longer the status quo.

As a result, organizations should reassess systems, controls and processes from a remote work point of view and develop a plan to share with management and board members/committees. The plan should reflect the organization's goals for adopting technology across departments, a funding plan and actionable steps to facilitate implementation.

5. **Diversity, Equity and Inclusion (DEI)**

The events of the past year have drawn heightened attention to organizations' social impact, and nonprofits should carefully consider their organizational approach to DEI. Begin with an exploration of these terms and define what they mean for your organization and its mission. Consider the following questions:

- Is your organization prepared to be transparent about the steps it is taking to become more diverse and encourage inclusive practices? How does your organization communicate its values to the public and new or existing staff and volunteers?
- Does your nonprofit create opportunities to listen to the voices directly from community, grassroots or young leaders in low-income, under-served and/or marginalized populations?
- How can your nonprofit open its board recruitment and staff hiring pipeline to talented candidates from underrepresented groups?
- How can your organization work with existing and future collaborative and community partners to ensure they share similar values and approaches to DEI? Are you having these conversations at the onset of new partnerships?
- How will your nonprofit assess the progress you are making toward your goals? What will success look like?

No matter where organizations are in their DEI strategy, they should ensure that it's ingrained seamlessly in all processes. Organizations can broaden their view by relying on experts, whether the board or external consultants, to brainstorm the most impactful approach.

As we emerge from the pandemic, the nonprofit landscape will continue to evolve. To support operational sustainability and social justice work, it's imperative for organizations to monitor how these considerations impact their mission and processes, and to remain agile enough to adapt to change.