

## insights

**TYPES NOT MAPPED YET** April 20, 2020 | TTR not mapped yet | Mark V. Bossi

# Financial distress of the COVID-19 pandemic on not-for-profits

Charitable institutions and not-for-profit entities (NFPs) are particularly vulnerable to financial distress because of the COVID-19 pandemic. Like most for-profit entities, NFPs are experiencing a momentous disruption in their business operations and the revenue derived therefrom. That in itself is likely to trigger a financial crisis for many NFPs. However, as a “double-whammy,” many NFPs can anticipate a significant future reduction in donor contributions and support from other constituencies because of the economic downturn. This disruption in contributions and non-operating revenue may have an even more devastating and longer-lasting impact on NFPs than the loss of business directly caused by the pandemic.

The bottom line is that NFPs should not just focus on surviving the short-term, but they should also consider longer-term subsistence and resource-allocation issues. This is especially important for NFPs that struggled financially before the on-set of the pandemic.

### What should NFPs do to address their short-term financial issues?

As is the case with for-profit entities, NFPs should immediately consider each of the following financial issues as they attempt to navigate the pandemic in the short-term:

1. What is the NFP's current liquidity situation and how long can it sustain itself during a prolonged pandemic? We recommend that financially vulnerable NFPs immediately prepare a 13-week cash flow projection.
2. Can and should the NFP draw against any available lines of credit to build liquidity or sustain itself in the short-term?
3. Does the NFP qualify for specially enacted COVID-19 economic relief, such as a forgivable loan under the SBA Paycheck Protection Program or an SBA Disaster Assistance Loan?
4. Is the NFP in a position to make a special appeal to its key donors or other constituents?
5. Are there any alternative income streams available to support the NFP and its mission in the short-term?
6. Can and should any programs (particularly non-core programs) be eliminated or curtailed in order to reduce expenses?
7. What other expenses can be curtailed or eliminated in the short-term?

### What longer-term issues should NFPs consider?

Unlike for-profit entities, NFPs are not beholden to shareholders. However, NFPs should be beholden to their mission as set forth in their articles of organization. Consequently, NFPs should continuously ask themselves how they can best steward their resources in fulfilling their mission - not just in the short term, but more importantly, in the long-term. It is, therefore, important for NFPs to consider the following issues as they navigate the current financial crisis:

1. What is the NFP's long-term chances for survival and how can the NFP best steward its resources to fulfill its mission?



2. Are the NFP's financial problems primarily related to the COVID-19 pandemic or are they more universal?
3. Can the NFP be successful in the long run if its current obligations are restructured and its short-term liquidity crisis is alleviated?
4. Do other organizations currently serve the same mission as the NFP, and should the NFP consider a partnership, joint venture, merger or sale?
5. Can the NFP better fulfill its mission by winding down its operations and deploying its resources in some other way?

*If you or your organization have any questions on these topics, please feel free to call or e-mail any of the financial restructuring professionals at Thompson Coburn LLP.*

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