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Not-for-Profit Industry
The Forgotten Sector?

All nonprofit organizations, large or small, have one thing in common—they exist to provide a public benefit. Although smaller nonprofits, defined provisionally as having 500 employees or fewer, have been able to take advantage of government lending programs established in the wake of the COVID-19 outbreak—the Paycheck Protection Program (PPP) and the Main Street Lending Program (MSLP)—larger nonprofits have not. This is a major and potentially catastrophic oversight.

This oversight reflects the government's tunnel-vision tendency to view the economy and threats to the economy primarily through the lens of for-profit entities—i.e., big and small businesses. There is nothing inherently wrong with that, but it is not just our balance sheets that are at risk during this crisis. The U.S. social safety net, already threadbare, is in danger of collapse. Nonprofit organizations, especially the larger ones, are the last line of defense for millions in the fight to keep themselves from falling into abject poverty, illness, and despair.

The U.S. nonprofit sector is large, with annual expenditures of $2.5 trillion dollars. It employs 12 million people, the third-largest workforce in the country, behind retail and manufacturing. In and of itself, it is a significant part of our economy. But in the government's zeal to protect the health of the business sector, the essential role played by the nonprofit sector in safeguarding the health and safety of our most vulnerable citizens has been ignored.

An analysis of the sector's financial vulnerability—"Main Street Lending 2.0: A Proposal to Support Our Most Vital Nonprofits"—by SeaChange Capital Partners and based on data provided by Candid, characterizes the COVID-19 crisis as "an extinction-level event" for nonprofits. Not only are the vital services provided by the sector at risk of being lost, so are untold numbers of nonprofit sector jobs.

Large nonprofits are a vital component of the nation's social safety net. Social services nonprofits provide resources such as food assistance, housing, and childcare, which all are in high demand right now to meet the needs of struggling families, including those of our frontline health-care workers. And as the SeaChange report points out, "Large nonprofits tend to be important in areas like residential care where smaller organizations do not have the capacity or the scale to do the work."

Nonprofits that provide social services operate with slim economic margins. This is true not just of small nonprofits but of large ones, as well. Here are some basic statistics:

> In the U.S., 1,548 large nonprofits provide social services

> They have annual expenses of $121 billion and total revenues of $123 billion

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> The median social services nonprofit:
  - Operates with a margin of just 1 percent
  - Receives just 6 percent of its revenue from philanthropy
  - Has total financial assets equivalent to 1.9 months of expenses
  - Has operating reserves of less than 1 month of expenses

Again, these are the large social services nonprofits, with 500 or more employees. Many of these large nonprofits operate on the brink of insolvency even in normal times.

The SeaChange report argues that the eligibility requirements of the PPP and the MSLP need to be modified to accommodate the crisis-related needs of large nonprofit organizations as well as smaller ones.

> PPP is already available to for-profit groups with more than 500 employees, provided they meet two conditions: (i) net income of $5.0 million or less and (ii) tangible net worth of $15 million or less. Unfortunately, the [Small Business Administration (SBA)] has indicated in some of its guidance that nonprofits are not eligible under these criteria. Nonprofit ineligibility makes zero sense. Why would otherwise eligible organizations established for public purposes be less worthy of PPP assistance than those established for private gain?

Where the rules of the PPP exclude many nonprofit organizations while waving through for-profit organizations with the same financial characteristics, the Main Street Lending Program ignores nonprofit organizations altogether.

> The Federal Reserve has stated that "while nonprofit organizations are not currently eligible under the MSLP program, we acknowledge the unique needs of nonprofit organizations, many of which are on the front lines providing critical services and research to fight the pandemic ... and will be evaluating the feasibility of adjusting the borrower eligibility criteria and loan eligibility metrics of the Program for such organizations."

How is it that the nonprofit sector finds itself in such an absurd situation?

The U.S. federal government is good at paying attention to some things, but not others. It is concerned with the financial health of the business sector, especially large businesses, as primary drivers of the U.S. economy. It honors and understands the important role of small businesses, as demonstrated by the existence of the Small Business Administration (SBA).

Cole, Newton & Duran's Not-for-Profit Practice

Our not-for-profit team has years of experience providing assurance, accounting, and tax services to a variety of organizations. Clients receive up-to-date information on the latest accounting developments and industry regulations.

Cole, Newton & Duran's team of professionals are involved in every stage of our client's engagement to ensure they are receiving high quality, responsive service.

Clients enjoy working with experts who help achieve their objectives. Clients receive industry knowledge and solutions they need to not only reach, but to exceed their strategic goals.

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Because the federal government cares about the health of business, it knows a lot about the business sector and collects massive amounts of data on the sector continuously. It knows so much about "small businesses," for example, that it has a comprehensive 49-page document listing the specific size requirements that businesses across more than 1,000 North American Industry Classification System (NAICS) categories must meet in order to qualify as "small businesses" eligible for assistance from the SBA.

There is no such set of standards for defining what constitutes a large or small nonprofit organization. And the job of amassing and organizing basic data on the organizational health of the nonprofit sector has been left to the sector itself. If not for organizations such as Candid, the Urban Institute's Center on Nonprofits and Philanthropy, the Johns Hopkins Center for Civil Society Studies, and a handful of others, such data would not be available at all.

All of this means that when legislative relief packages are being considered during times like these, our government has no systematic means at its disposal for assessing and responding to the financial needs of the U.S. nonprofit sector. Hence, the sector is treated as an afterthought, with resulting legislation that looks like the PPP and MSLP.

Although this piece focuses on social service nonprofits, the SeaChange report discusses the economic challenges being faced by all large U.S. nonprofits, including hospitals and health care, higher education, and arts and cultural organizations.

The COVID-19 crisis has stretched the capacity and resources of many nonprofit organizations to the breaking point. Without immediate attention to the financial challenges U.S. nonprofit organizations currently face, huge holes will be ripped in the nation's social safety net leading to catastrophic consequences for millions of U.S. citizens.

The government has outsourced the job of maintaining the social safety net to the nonprofit sector. But, having outsourced much of this work, it has apparently forgotten that it still bears a fundamental responsibility to ensure that the basic survival needs of the nation's most vulnerable populations are met. Every American requires and deserves at least a minimal level of protection from the fallout created by COVID-19.

The preceding is reprinted from Candid's Blog by Larry McGill who runs Candid's research program.

Contact Us

If you would like to discuss how Cole, Newton & Duran's not-for-profit team can help your organization with its tax, accounting, or consulting needs, please feel free to give me a call.

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