

March 24, 2020

Evaluating COVID-19 Impact: Approaches to Quantification

The ability to measure the impact of COVID-19 will be essential to managers in the nonprofit sector. In order to make the case for government funding, donor support and member retention – and as the basis for crisis management and recovery planning – managers need insight into the financial consequence of the pandemic. This tip sheet offers ideas, grounded in accounting principle, for developing financial measurements of COVID-19's impact appropriate to your circumstances.

Need help? Contact us at info@youngassociates.ca.

For those who'd rather DIY, here's how.

Headline

Well-managed budget-to-actuals reporting should cover you.

We hope the additional detail and supporting arguments will be helpful for internal discussion.

What did happen, what might have happened

You will be able to report certain items with clarity because they will be recorded in your books. Your accounting records capture what happened: what dollars were received and what amounts were paid out. It's important to ensure your books will yield helpful reports; see our companion tip sheet on [Effective Bookkeeping Practices](#).

For many organizations – notably arts and culture, where programming was effectively shut down in the second week of March – the critical impact is around what might have been. Management needs to take a fair and reasonable approach to estimating impacts that cannot be measured objectively.

“Fair” and “Reasonable”

These terms have a specific meaning in accounting. Understanding them can guide your approach to measuring the impact of COVID-19.

Your audit report probably states that the appended statements “present fairly, in all material respects...” If statements are presented fairly, they faithfully represent the organization’s financial position, are supported by sufficient evidence, and are free of bias.

An item is “reasonable” if a knowledgeable and independent observer would agree that it is rational and appropriate within the circumstances. Accountants perform “reasonability tests” where they evaluate the relationship between financial statement elements. For instance, your auditor tests the reasonability of your GST/HST returns by comparing the taxes you reported to your taxable revenues and expenses.

A funder might evaluate the reasonableness of your COVID-19 impact report by looking at your organization’s capacity. If you cancelled 10 performances in a 1200 seat venue and your average ticket price is \$75, the box office impact cannot reasonably exceed \$900,000.

Documenting impact

Keep your paperwork and make good notes! Confirm verbal discussions with an email, to create a written record of process and decisions. Take detailed minutes of board and committee deliberations.

Documents such as contracts, correspondence about cancellations, correspondence instructing staff to cancel spending plans, ticketing reports showing refunds, emails with sponsors and donors will help to substantiate the consequences of COVID-19.

Documentation can demonstrate that you were following the plan for the year, and it can capture the actions you took in response to the pandemic.

Revenues and expenses arising from the pandemic

You may incur COVID-related costs (e.g. setting up staff home offices, extra travel or IT expense) and perhaps COVID-related revenues (e.g. federal wage subsidy, special donations). Code them to an account or class that will be part of your COVID impact report. (See our companion tip sheet on [Effective Bookkeeping Practices](#).)

Budget to actuals variance

Your annual operating budget amounts to a policy document for your organization: management and board agree to execute the planned activities; to spend no more than the budgeted amount; and to target the agreed revenues. The budget can be seen as a pro forma income statement: it is your forecast of the company's operating results at year-end.

As such, the board-approved budget may provide a reasonable yardstick for evaluating impact.

To quantify impact, management would:

- Update the budget for any confirmed changes that were in place before COVID-19 struck (so that you are measuring impact on the most up to date plan)
 - Your original budget may or may not be affected by COVID-19, but it may have been affected by other, unrelated planning changes.
- Eliminate the effects of items arising specifically because of the pandemic (e.g. federal wage subsidy, special fundraising appeals, infrastructure costs for remote work, cancellation penalties).

With these items considered, the difference between budget and actuals could serve as a reasonable measurement of impact.

Year over year variance

The going concern concept states that unless there is strong evidence to the contrary, or unless the organization itself has decided to fold, a company will continue to operate for the foreseeable future. Mandate-driven organizations tend to follow much the same pattern year over year in terms of program and service delivery, scale of organization and financial capacity.

As such, the difference between past financial results under normal circumstances and the results you achieve during the pandemic may offer a fair and reasonable perspective on COVID-19's impact.

Direct and indirect revenues and expenses

This will be critical for project reporting, but has some bearing as well on the understanding of your overall operations.

A revenue or expense item is “direct” when it arises from a project, program, event, or activity. Other revenues and expenses may be impacted by that project, program, event or activity, but in a tangential or indirect way.

For instance, a museum incurs costs directly related to new exhibits (e.g. exhibit design and installation, artifact loans, marketing). It may also receive direct revenues (e.g. sponsorship, ticketed admissions). But every exhibit depends on the museum’s general infrastructure. Indirect costs of exhibitions might include cleaning and maintenance, the security system, and the ticketing system. Indirect revenues might include operating grants and memberships.

The museum must consider the overall impact of being shut down because of COVID-19. But, if management also cancelled a new exhibition, and needs to communicate the impact to project funders, it would be reasonable to consider reporting collateral impact of the cancellation on, say, membership sales and individual donations.

The true impact of cancelled activities is the sum of the direct items and the reasonable share of indirect items.

Core and project

Classically, arts organizations are project-driven. It is often the case that the core infrastructure is lean, and the bulk of staffing and other resources are directly attached to artistic projects. The following analysis may work for other types of organizations with similar characteristics.

A useful measure of financial stress is to separate revenues and expenses directly associated with your organization’s core (overhead / administration) from those directly associated with its projects. There are three possibilities:

- Core revenues cover core expenses, and project revenues cover project expenses
- Project revenues are *insufficient* to cover project expenses, and the organization must generate sufficient core revenues to cover both the core and a portion of the projects.
- Core revenues are *insufficient* to cover core expenses, and the organization relies on projects to cover a portion of the core

For organizations reliant on project revenues to secure core operations, project cancellations could be devastating to the organization’s ability to cope with the pandemic.

Evaluating where your organization falls may help you understand the impact of COVID-19. Successful strategizing depends on a clear articulation of the challenge to be addressed.

How [Young Associates](#) can assist

A consultation with us may make all the difference to your comfort level and confidence that your accounting system is up to the challenge of the pandemic.

We can help you develop processes to calculate the impact of COVID-19 on your operations, and support a thorough and effective analysis of your financial situation.

We'd also be happy to give you [a quote for full-service bookkeeping](#).

We work on the basis of fixed price agreements, so you'll know going in how much our work will cost — and we always offer a money-back guarantee: if you're not completely delighted with our service, we will, at your option, either refund the price, or accept a portion of said price that reflects your level of satisfaction.

Contact us: info@youngassociates.ca.

This tip sheet was created by Heather Young CPB and the Young Associates team based on the best information available as of the date of posting. We are happy to receive your comments at info@youngassociates.ca.

The contents of this tip sheet comprise Young Associates' views. They do not constitute legal or other professional advice. You should consult your professional advisor for advice relevant to your situation.

Founded in 1993, Young Associates provides bookkeeping and financial management services in the charitable sector, with a focus on arts and culture. Young Associates also provides consulting services in the areas of data management, business planning and strategic planning. Heather Young published [Finance for the Arts in Canada \(2005, 2020\)](#), a textbook and self-study guide on accounting and financial management for not-for-profit arts organizations.