

Financial Accounting

Accounting Firms Help Nonprofits Navigate Trump-Era Funding Cuts

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- Trump administration cuts spur nonprofit funding fears
- Accounting firms take on growing strategic role

Not-for-profit organizations from humanitarian groups to health researchers are turning to accounting firms for financial and strategic counsel as they grapple with uncertainty from the Trump administration's gutting of government funding.

Agencies have cut grants under President Donald Trump's push to reduce federal spending, putting nonprofit financing in jeopardy. The US Agency for International Development and organizations that rely on its funding have been particularly hard hit, with more than 80% of USAID programs axed as of last month, according to Secretary of State Marco Rubio.

Financial uncertainties are prompting firms such as EisnerAmper, CBIZ, and BDO USA to refine their roles as strategic advisers to their nonprofit clients, in addition to providing traditional bookkeeping and audit services. Advisory teams are fielding questions, tracking administration actions, and doling out guidance on how to diversify funding streams, taking advantage of their panoramic view of the industry from talking to multiple clients.

"We have always been auditors of nonprofits, but I would say right now we're adding equal—if not more—value on the advisory side to try to help organizations with the best advice that we can provide," said Candice Meth, the national leader for the not-for-profit services practice at EisnerAmper.

More than 30% of revenue earned by charitable nonprofits, or 501(c)(3) tax-exempt organizations, comes from government grants or contracts, according to the National Council of Nonprofits.

USAID cuts have impacted some clients already, and others are concerned about what the future holds, said Julie Jones, managing director of the not-for-profit and education practice at CBIZ.

Accountants are no longer just preparing nonprofits' financial reports and Internal Revenue Service Form 990s, said Omri Even-Tov, an associate professor and faculty co-director of the Center for Social Sector Leadership at the University of California, Berkeley, in an email.

"For many nonprofits, the accountant is the first call when government funding is disrupted," Even-Tov said.

'Three-Legged Stool'

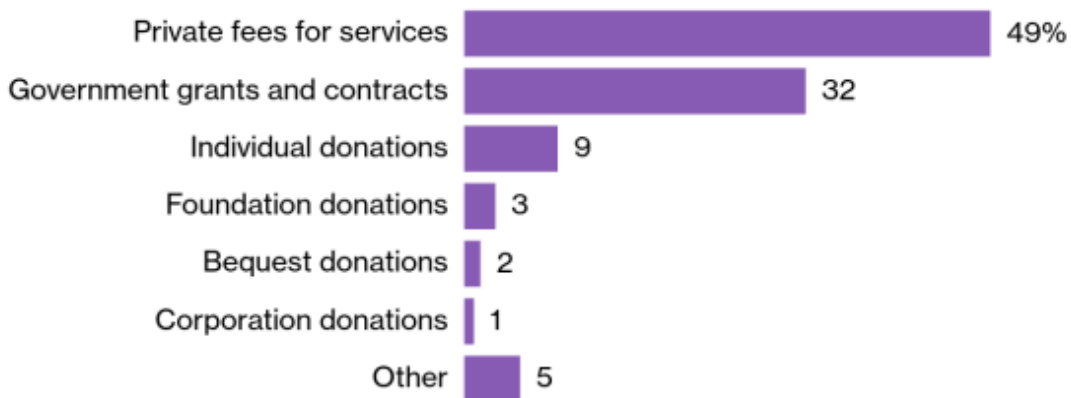
Smaller organizations can lack diverse funding, said Dan Prater, senior managing consultant at Forvis Mazars.

"It's the three-legged stool," Prater said. "So, if one or two of those legs go, the whole thing's down."

Secretary of State Rubio recently announced his agency's intent to proceed with "realigning certain USAID functions" to the State Department by July 1. Rubio said March 10 that 5,200 contracts had been canceled as part of a cost-cutting effort. Decisions on cuts were based on "alignment with Agency and Administration priorities," a State Department spokesperson said.

Charitable Nonprofits' Revenue Sources

The sector earns more than 80% of its revenue from private fees and government grants and contracts.



Source: National Council of Nonprofits 2019 report

Bloomberg Tax

Meth, of EisnerAmper, said some clients have received letters saying 80% to 90% of their government funds are expected to disappear.

Private foundations and individual donors worried about their grantees have reached out to EisnerAmper and worked with the firm to pay for pro bono advisory services for nonprofits, Meth said.

While nonprofits can try to diversify their revenue, there is a finite pool of dollars available, said Anat Kendal, chief financial and business operations officer at Pancreatic Cancer Action Network.

That could increase competition among organizations for remaining funds, said Kendal, who is also a member of the Financial Accounting Standards Board's not-for-profit advisory committee.

Creative fee-for-service opportunities, through which nonprofits earn money from services or products, are another way to tap into revenue streams, according to Kathleen DuBois, the national industry leader for advisory firm Wipfli's nonprofit, government, and education practice.

Risk Assessment

Accounting firm advisory practices are helpful to nonprofits because members have exposure to broad experiences given their client bases, said Frank Krause Jr., CEO and executive director of the Federation of American Societies for Experimental Biology.

"That allows them to use that experience to identify potential areas of risk within my individual organization that an in-house CFO may not have had exposure to," Krause said.

CBIZ's Jones works as the federation's outsourced chief financial officer. Jones has helped to keep the organization informed amid funding uncertainty and has suggested strategies to streamline costs, Krause said.

Contingency planning can help nonprofits gain "some semblance of control," said Andrea Espinola Wilson, managing principal in industry specialty services and national co-leader of the nonprofit and education advisory services practice at BDO USA.

BDO USA is guiding clients through "what if" scenario planning, analyzing how funding could be replaced if it's lost, Wilson said.

Organizations need to evaluate whether there's substantial doubt about their ability to continue operating as a "going concern"—or financially stable organization—for 12 months after their financial statements are issued, said Brian Conner, an audit partner and health care consulting group leader at Moss Adams and member of the FASB's not-for-profit advisory committee.

Funding cuts could make that "going concern" assumption trickier.

As the EisnerAmper practice works on auditing year-end financial statements, clients are learning about funding cuts, Meth said.

Depending on the client's concentration of revenue and their available resources, "we have to make an assessment," she said. This process considers factors such as liquidity concerns.

Audit partners said they've received questions from clients about funding uncertainties.

While Aprio assurance partner Mark Robins said his clients typically ask technical accounting-related questions, "times are different."

"They're asking me, 'What are other nonprofits doing? What can they do to try to free up resources, get more funding?'" Robins said.

Firm Impacts

Firms providing outsourced accounting and advisory services could see their own business affected as nonprofits tighten their belts.

“How that’s going to impact us—time will tell,” said Jones, of CBIZ.

Still, Jones emphasized a continued need for accounting firms like CBIZ, especially for nonprofits that may lack in-house consulting and bookkeeping expertise.

Being able to see what’s happening at multiple clients and share those experiences across nonprofit organizations “is still the advantage,” Jones said.

To contact the reporter on this story: Jorja Siemons in Washington at jsiemons@bloombergindustry.com

To contact the editors responsible for this story: Amelia Gruber Cohn at agrubercohn@bloombergindustry.com; Andrea Vittorio at avittorio@bloombergindustry.com

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