



# Challenges and Priorities for Nonprofit Organizations



2018 Outlook Survey Report

# Introduction

The Nonprofit Financial Priorities Benchmark 2018 Survey sponsored by Wipfli was conducted in December 2017. Polling over 350 financial professionals and executives from the nonprofit sector across the country, the survey explored the challenges facing this industry, as well as organizations' priorities in 2018.

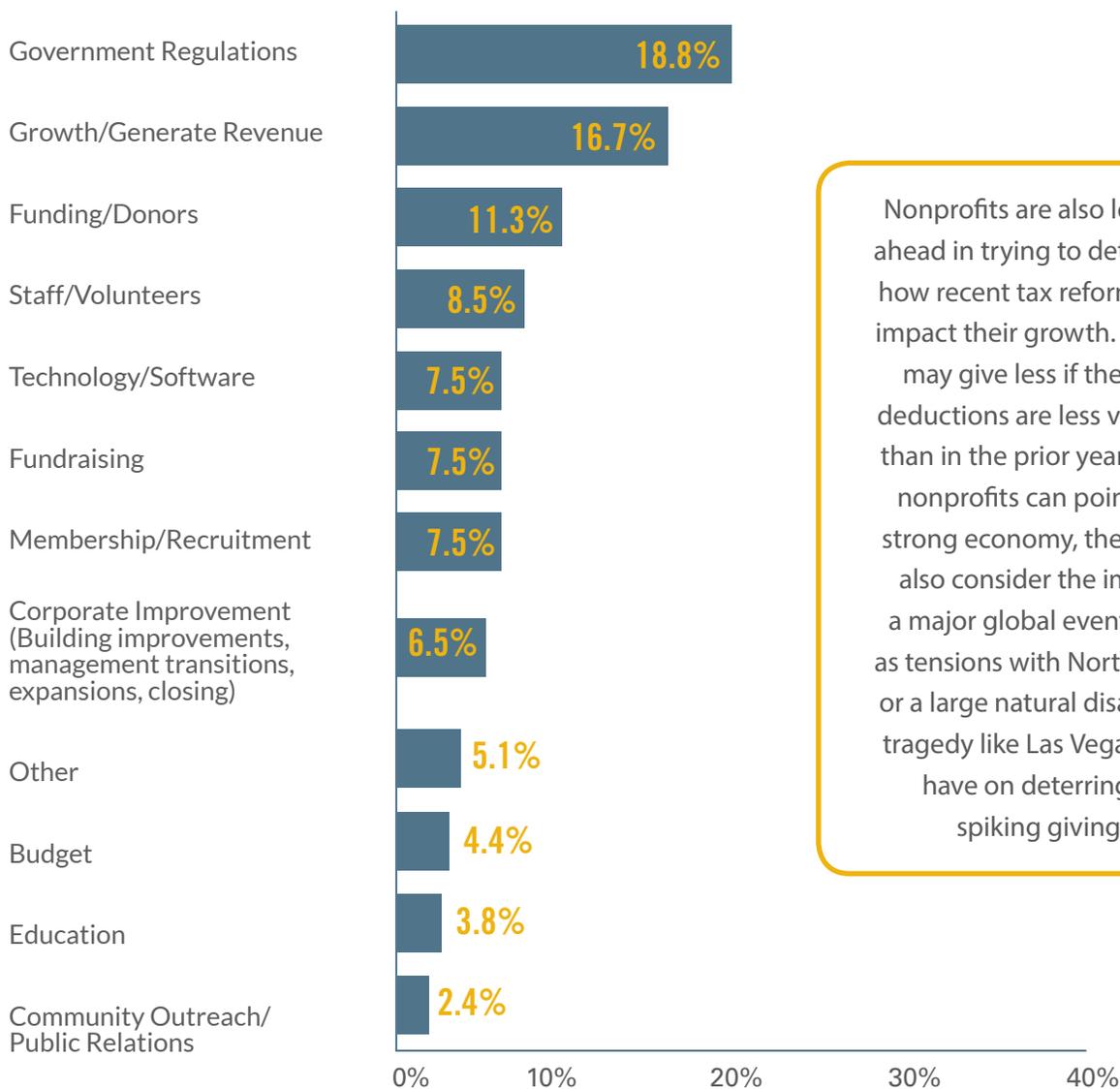
The financial performance of nonprofits in the U.S. must contend with stock market results, government reform initiatives, and an uncertain political environment. Nonprofit growth is another indicator of an organization's impact and sustainability and will require priority by executive leadership throughout 2018. The survey prompts organizations of all sizes to consider how to effectively scale and continue delivering on their missions and to consider what financial guidance decision makers might need to produce the best results for their nonprofit.

The following survey questions identify several key aspects necessary for growth and operational efficiency recognized by nonprofits as needing their time and attention this year. Respondents also describe the nature of running a nonprofit in this era of changing local, state, and federal government regulations. Study highlights reflect these concerns and challenges:

- Survey participants rank government oversight (18.8%) and generating revenue (16.7%) as their top overall challenges facing their organizations.
- Leading the list of priorities in 2018 are expanding fundraising and development (60%) and implementing operational efficiencies (55.8%).
- The top financial challenges reported by respondents are development/growth/revenue/cash flow (22.8%) and fundraising (13%).

# 1. Describe the top challenge your organization is facing in the upcoming year.

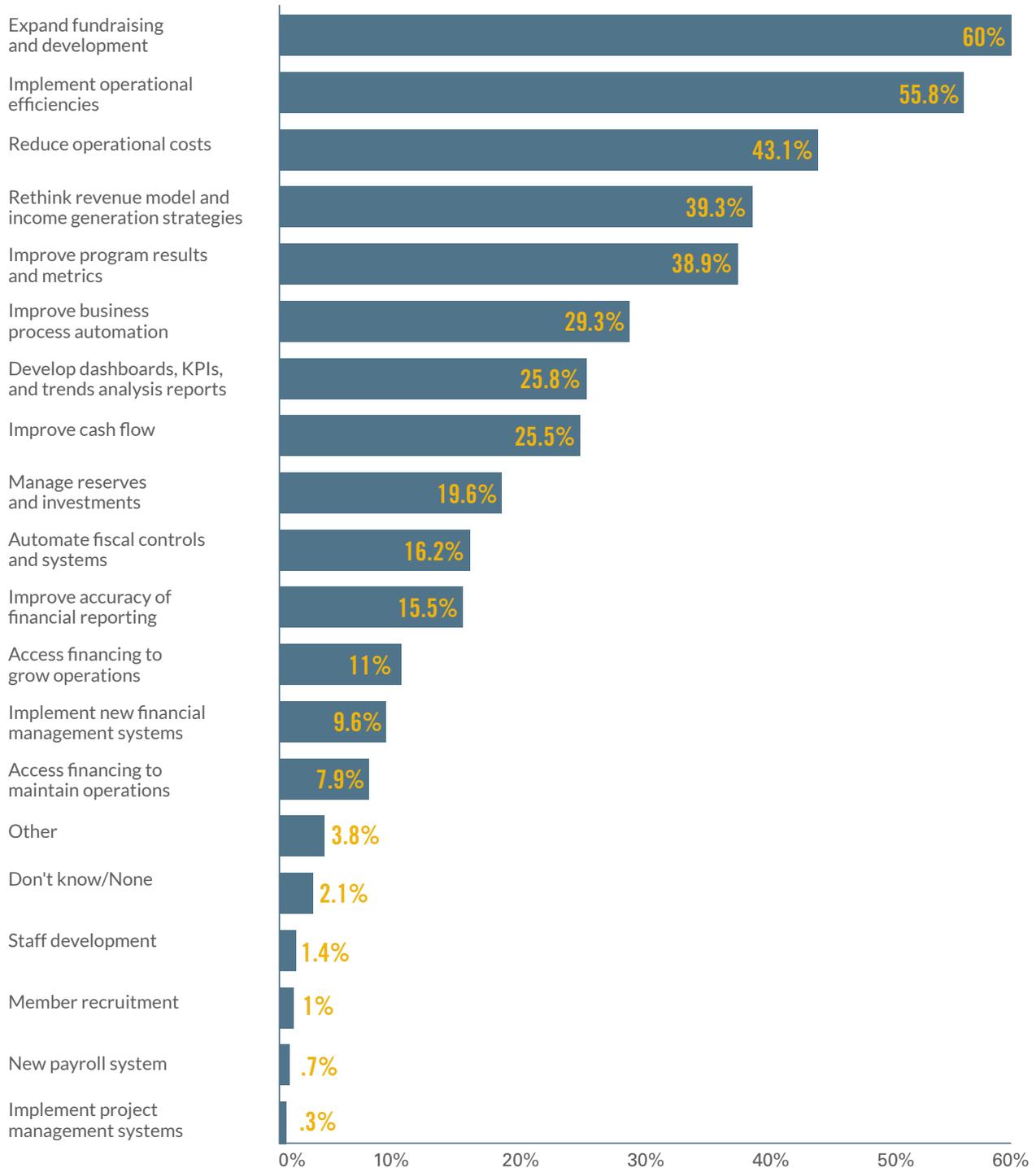
Government regulations and generating revenue top the list of the two biggest challenges facing nonprofits in 2018. Most nonprofits are dealing with regulation and oversight of the federal and state governments where they operate. The overriding uncertainty of the political climate has the power to impact the revenue and operating environments of any number of fields of nonprofits. Nonprofits, particularly those which receive government funding, need to assess the risk associated with their revenue streams. Many of the services provided by nonprofits are funded at least somewhat by local, state, or federal governments. In uncertain times, a contract does not always guarantee prompt payment. In addition, with regulations and legislation change, the possibility remains that organizations may not be able to bill for all services rendered or continue to receive the same level of funding for services. These factors highlight the importance of nonprofits to building government relationships and vibrant long-term advocacy and seeking alternative revenue sources.



Nonprofits are also looking ahead in trying to determine how recent tax reforms may impact their growth. Donors may give less if their tax deductions are less valuable than in the prior year. While nonprofits can point to a strong economy, they must also consider the impact a major global event, such as tensions with North Korea or a large natural disaster or tragedy like Las Vegas, may have on deterring or spiking giving.

## 2. What are your top five financial priorities in the upcoming year?

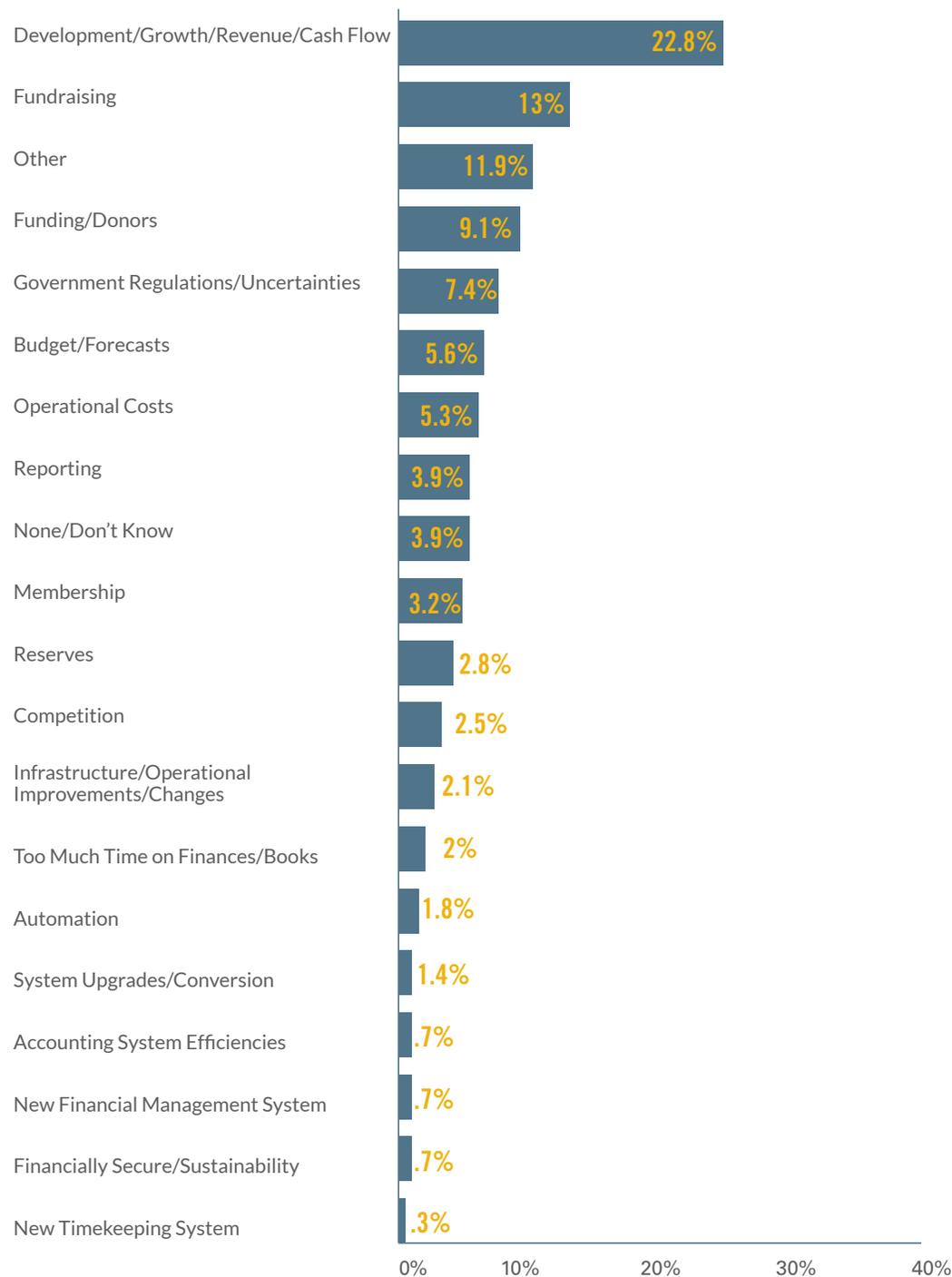
Organizations are prioritizing fundraising and several aspects of operational efficiency for 2018. Nonprofits are built around their missions and must be supported by the right revenue streams and expense models, which together produce an integrated enterprise model. Recognizing the need to reduce the overall cost of finance means nonprofits will have to work hard to boost the productivity of core transaction processing. Automating routine transaction processing in accounts payable, accounts receivable, and general accounting can contribute to lowering costs. In addition, experts agree that simplifying the resource-planning environment and reducing disparate vendors and software occurrences will help allow for effective standardization and automation of key business processes.



### 3. Describe your top financial challenge.

Growth is a constant focus for nonprofit leadership. A 2016 *Stanford Social Innovation Review* found three common attributes among nonprofits that were able to efficiently transition from idea to a \$2 million budget: strong teamwork, an effective outcome evaluation system, and access to capital. These are aspects nonprofits can focus on to develop a performance-driven culture.

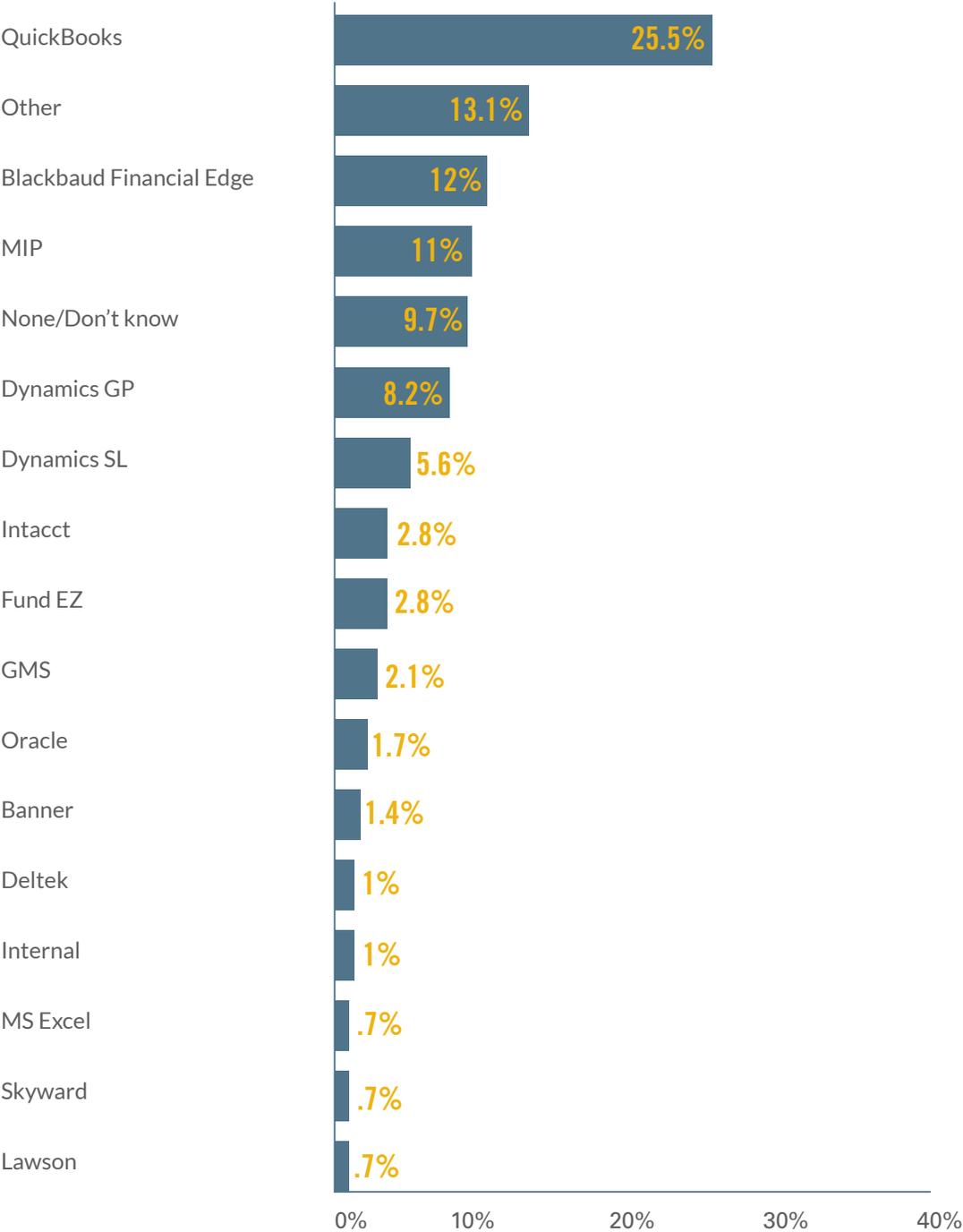
Fundraising efforts will also require a new focus by nonprofits in the upcoming year. According to experts, new donors are taking many forms. Many are putting assets into donor-advised funds at a record pace, some are completely new to charitable giving and are reacting to the political environment, others are tech savvy and drawn to nonprofits that appeal for support as “investments.”



## 4. Which accounting system does your organization currently use?

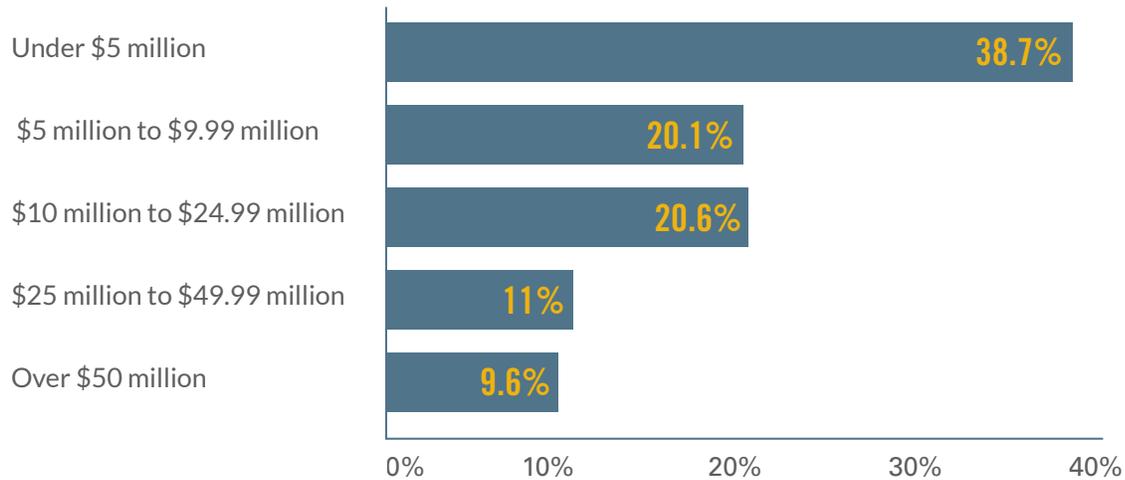
Approximately a quarter of nonprofits surveyed use QuickBooks for their accounting and bookkeeping needs. QuickBooks is a do-it-yourself accounting software used mostly by small businesses and nonprofits. For smaller organizations, this is an economical solution to help them manage their nonprofit finances.

Nonprofits must deal with business process differences such as grants vs. endowments vs. contributions, as well as donor intent and grant restriction mandates. They are also responsible for meeting the reporting needs of multiple stakeholders including board of directors, donors, and local, state, or federal governments. Nonprofit accounting requires quite a bit from its system. Cloud-based systems can offer better visibility, reporting, and dashboard while reducing operational costs.



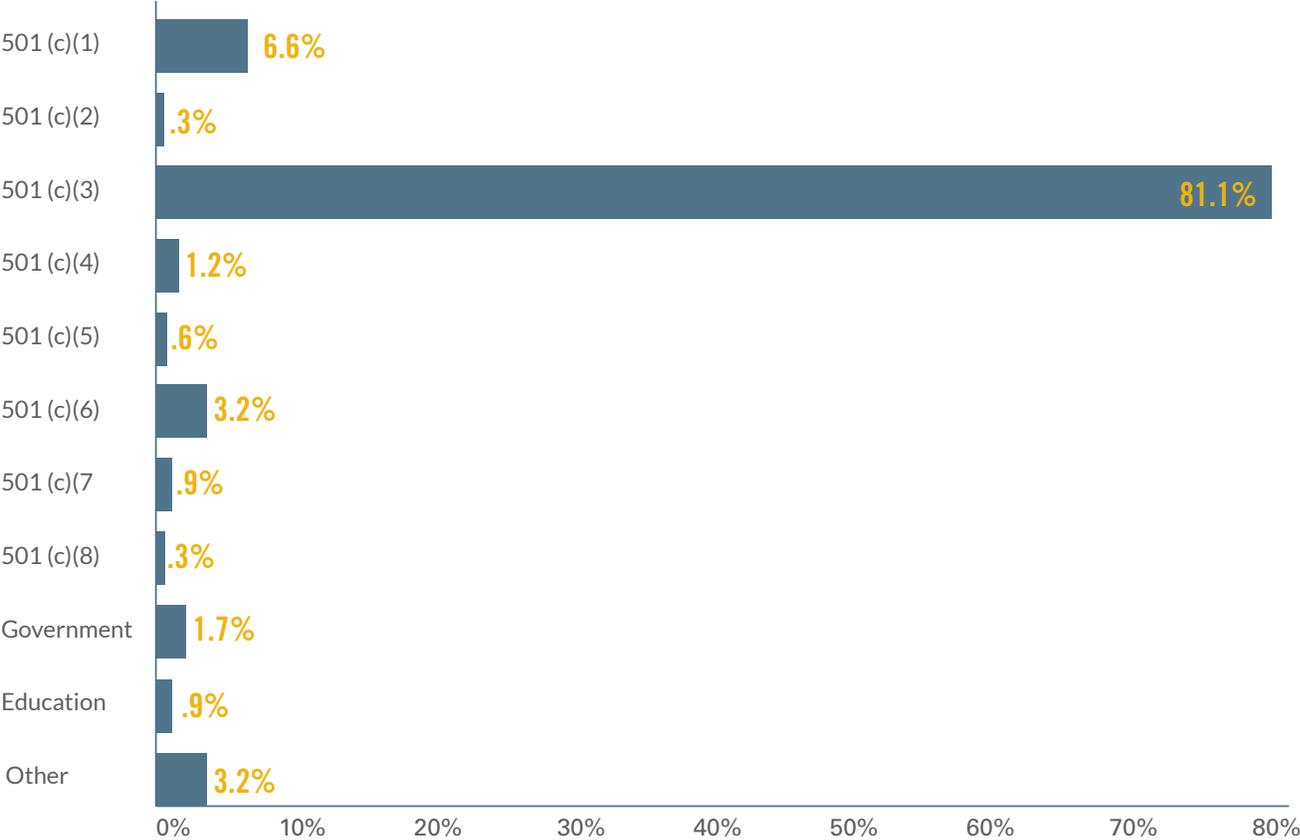
## 5. What best describes your organization's revenue?

Close to 40% of nonprofit respondents are with small organizations. While all nonprofits work in the same political and economic environment, these indicators signaled uncertainty in some respects, yet tended to deliver growth in 2017 for both small and large nonprofits.



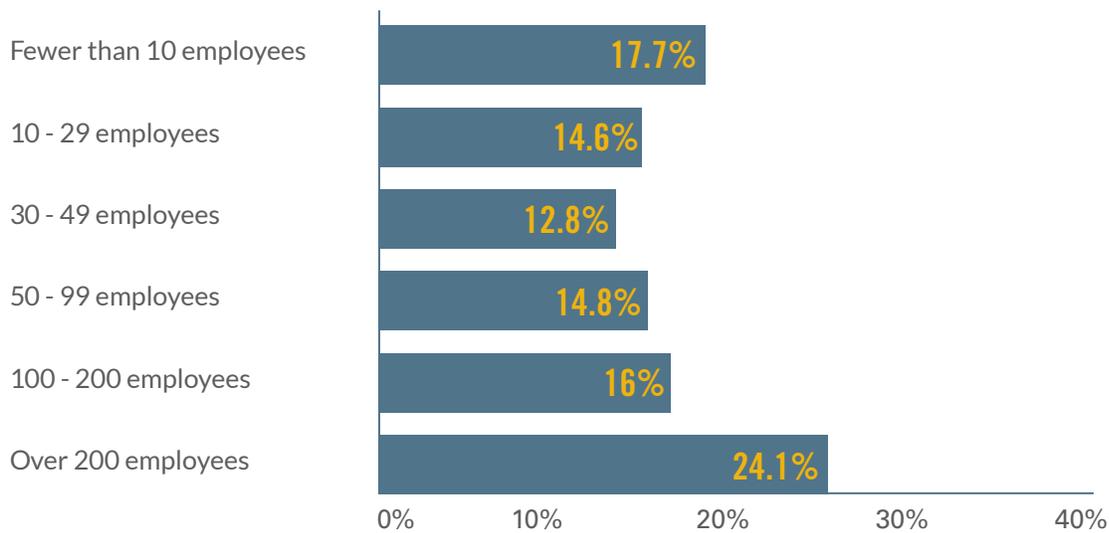
# 6. What best describes your organization's type?

Most nonprofits operate as a 501(c)(3). Incorporating in this manner provides organizations with legitimacy and status. It allows them to capture foundation and government funds that would otherwise not be available to their organization. Incorporation can also help ensure that organizations are accountable to their mission and bylaws.



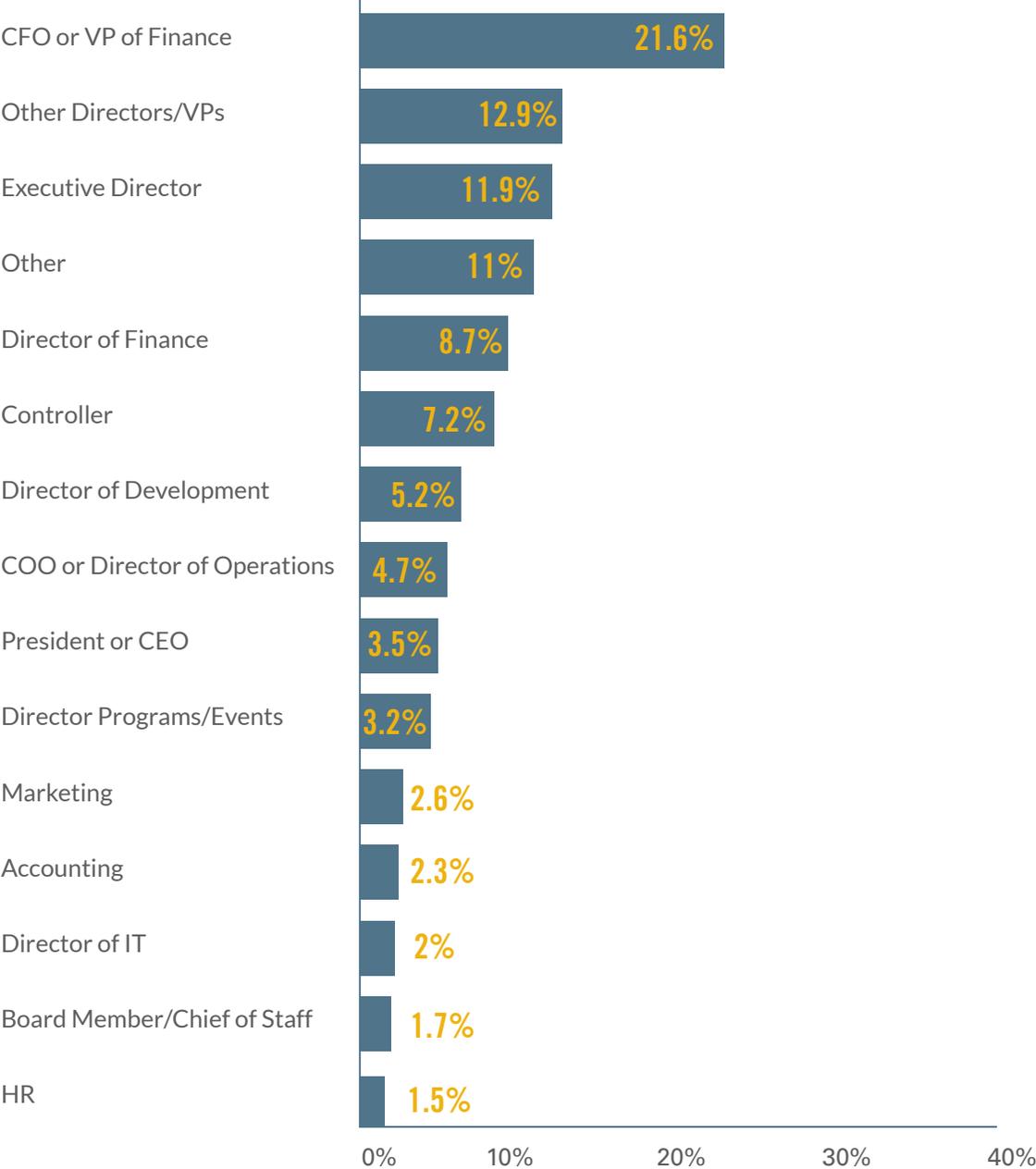
## 7. Which best describes your organization's number of FT employees?

The survey reveals that respondents report staffing challenges as an immediate concern in 2018. Similar findings from the Nonprofit HR's 2016 *Nonprofit Employment Practices Survey* found that the top two biggest challenges for nonprofit employers are being able to pay a competitive wage and finding qualified staff. Smaller organizations, those with an annual operating budget of \$5 million or under, in particular, lack in this area, with 73% not having a formal recruiting strategy and 91% not having a formal recruiting budget. Organizations will benefit from talent acquisition and retention strategies that can stretch training budgets and increase employee engagement.



# 8. Which best describes your role within your organization?

Nonprofit leaders must continue to pursue strategic leadership principles to guide their organizations in 2018 and beyond. A key element in the success of nonprofits is fund development, which is often the responsibility of executive directors. A strong finance team allows for the focus to remain on capital, without allowing distractions to take away from accomplishing their mission.



## Conclusion and Trend Initiatives

Nonprofit organizations have a range of priorities in 2018. Their primary focus looks to expand fundraising and develop operational efficiencies while reducing operational costs. Organizations of all sizes will have an opportunity for growth this year and need to raise essential funds through new and innovative approaches. This survey helps establish four trend initiatives to assist nonprofits in effectively and efficiently continuing to deliver on their mission.

### *Increase Fundraising With Crowdfunding and Other Alternative Sources*

An innovative approach to increase fundraising efforts can begin by attracting donors online through crowdfunding. This nontraditional method may help to reach what is considered by many in the philanthropy world as one of the toughest groups to attract for giving, Millennials. Crowdfunding platforms let nonprofits show their work through individual stories and photos in the space where young adults occupy most of their time and also taps into their tendency to give to people rather than organizations. Nonprofits like The American Cancer Society have started with modest initial goals and believe that lots of small donations can really add up. Crowdfunding is continually growing; as a report by Massolution estimates that \$34 billion was raised through this method in 2015 and is expected to more than double in subsequent years.

### *Improve Long-Term Financial Health*

Nonprofits and charity experts are seeing a change in the attitude of grant makers over the past few years, with foundations increasingly providing support for general operating costs. For many small nonprofits, having enough cash to cover more than a month or two of operations is a struggle. This movement requires a shift in thinking and trust on both sides. Truly understanding a nonprofit's overhead costs will benefit the overall health and sustainability of the organization. As this movement progresses forward, it now needs to become the goal of nonprofits to identify their actual costs and develop budget documents that accurately reflect the full costs of their work.

## *Develop Talent Acquisition and Retention Strategies*

According to the U.S. Census Bureau, there are 74.1 million baby boomers born between 1946 and 1964 who are retiring at an average rate of 10,000 individuals every day for the next 15 years. This presents an enormous opportunity for nonprofits to tap into this abundance of people with vast experiences and talents who desire meaningful activities. Organizations' strategic plans for 2018 need to include a goal of implementing a way to best capitalize on the availability of this experienced and free labor. In addition, nonprofits' technology priorities must address how to take advantage of advancements to increase the potential for this generation to volunteer right from their own home.

**Nonprofits also will benefit from focusing on retention initiatives. Developing approachable leadership has been shown to directly correlate with lower turnover. Relationship building activities can provide key learning opportunities to foster effectiveness related to this goal.**

## *Deliver Data-Driven Results*

Nonprofits have an opportunity to transform their organizations by building a culture around using data. Using data can help drive decisions and improve results. It can provide answers to some of the most important questions facing nonprofits today, such as which donors are most likely to give to my organization, which donors are most likely to stop giving to my organization, and which volunteers or donors are likely to be the best donors in the long-term. An initial goal nonprofit organizations can make in 2018 toward creating a data-driven fundraising program is investing time to create healthy data. Identifying key metrics to measure program outcomes and mission success is the first step toward delivering data-driven results.

*Sources: Chronicle of Philanthropy. November 2017. Volume 30, Issue 1.  
Chronicle of Philanthropy. Data and the Science of Raising Money.  
September 2016. Volume 28, Issue 11.*

