NOT-FOR-PROFIT
TRENDS REPORT 2023
Defining the Challenges of the Not-for-Profit Industry and Monitoring Emerging Trends

Not-for-profit organizations have been battling the same unusual business landscape as for-profit businesses over the last few years. With smaller budgets and less resources, leadership teams have juggled fluctuations in demand for their services, staffing shortages due to The Great Resignation, emerging technologies, and more.

The uncertainty continues as we move through 2023 with thoughts of a looming recession, vacancies across multiple departments, new accounting standards, and an even greater push toward technology.

Executive Summary

UHY’s Not-for-Profit Trends Survey is intended to discover the issues that not-for-profit organizations are currently facing, specific pain points, and emerging trends that leadership teams are contending with as the year progresses. UHY sampled participants holding various positions within not-for-profit organizations in a number of different sectors with annual revenues ranging from less than $250,000 to over $10,000,000.

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>POSITION</th>
<th>REVENUE</th>
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<tbody>
<tr>
<td>Arts &amp; culture</td>
<td>CEO or Executive Director</td>
<td>Participant organizations range from under $250,000 to more than $10 million.</td>
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<tr>
<td>Educational</td>
<td>Finance Executive</td>
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<td>Nonprofit healthcare</td>
<td>Board Member</td>
<td></td>
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<tr>
<td>Social services/community services</td>
<td>Development/Fundraising</td>
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<td>Trade, member, professional association</td>
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Identifiable Trends for the Not-For-Profit Industry

Financial matters continue to be the number one concern for participants, amplified with worries over recession evident in several areas.

Not-for-profit organizations continue to provide critical services for the communities they serve while managing a lack of resources and financial support. The top concerns trickled down from the widely held belief of an impending recession with program funding, financial support and less willing community partners topping the list of concerns.

Leadership teams express that levels of funding have largely stayed the same or decreased over the past 12 months. In areas that saw decreases in funding, organizations saw the largest reduction in individual contributions.

Engagement from corporate donors has decreased or stayed the same for most organizations.

Donors and community partners continue to deal with a myriad of problems of their own, which can cause philanthropic initiatives to take a back seat to more pressing matters. The deluge of information business owners must sort through on a daily basis could also cause not-for-profit engagement efforts to get lost in the fray.
Leadership teams foresee an increase in demand for their services due to a potential recession.

As the harsh realities of a recession begin to unfold (rising unemployment, less disposable income, etc.) participants in certain sectors believe there will be an increase in demand for their valuable services.

Labor challenges extend to the not-for-profit industry.

The not-for-profit industry is not immune to recruiting woes. The unusual labor market that has plagued for-profit organizations has also impacted not-for-profit organizations with fewer applicants and increased competition for top talent.

Retaining top talent has also been an issue, with a large portion of organizations reporting an increase in turnover due to financial market conditions. Certain departments within the organizations have been impacted more strongly than others.

Not-for-Profit organizations are constantly reviewing strategies and attempting to improve.

Over the last 12 months, participants reported that they have attempted to innovate or revitalize service lines, alter mission statements, and target new populations.

Technology will become more prevalent with not-for-profit organizations.

As digital transformation permeates throughout our world, the leaders of not-for-profits say they will embrace some form of new technology this year.

Familiarity with the new lease accounting standards is minimal with organizations experiencing moderate difficulty with implementation.

FASB ASC Topic 842, Leases, requires lessees to recognize on the balance sheet the right-of-use assets and related lease liabilities associated with their lease contracts with terms of more than 12 months. For some not-for-profit organizations, it may not apply, but for others, it is important to understand, adopt and follow the new standard to ensure compliance.
Top Concerns for Not-for-Profit Leadership Teams

Financial support and funding are the top concern for most if not every not-for-profit organization. These organizations often find it difficult to obtain substantial financial resources in times of economic prosperity, let alone with a tightening market and a recession likely within the next 6-8 months.

Top Three Concerns for the Not-For-Profit Industry in Times of Recession

Of the many concerns on the radars for the leaders of not-for-profit organizations, program funding, financial support and the willingness of community partners were named as the top three.

- **73.6%** Program Funding
- **69.8%** Financial Support
- **31.5%** Willingness of Community Partners

Participants were asked to share their top concerns and select all that applied. These responses indicate which concerns were the most popular among respondents.
Program Funding, Financial Support, and Willingness of Community Partners

These concerns are not necessarily new but may loom even larger for the industry as the country braces for the impacts of a recession. Looking beyond the most obvious factors that limit financial support, an article from Every.Org offers some other potential barriers to financial support that may not be as obvious. According to the article, sometimes limited methods for donation are an issue. These issues can stem from an outdated website, unintuitive process or lack of electronic solution as a whole. There are also concerns associated with “maximizing the donation” as payment processors can charge transaction fees which may or may not be known at the time of donation. 1

Not-for-profit boards should examine their processes to ensure they are not adding to or creating this issue for their own organization. Some causes of financial constraints are completely out of your control, but shoring up what you can control may lead to an increase in awareness and, or funding.

Limited Fundraising Efforts and Limited Volunteer Support

These two topics go hand-in-hand as a lot of not-for-profit organizations rely on volunteer support to operate, which would include fundraising campaigns, planning events, or even keeping their target audience informed.

Limited Capacity to Serve and Technology Limitations

Further down the list of concerns are the limited capacity to serve their constituents and technology limitations.

Technology limitations ranked dead last on the list of concerns, but whether that is because leadership teams are fully utilizing all technology available or because it just is not on their radar is unknown. Adapting to the changing technology landscape could prove to be a worthwhile endeavor and could even help reduce overhead or help reach a new audience.
Measuring Contributions and Financial Support

Financial matters and funding are always major topics for not-for-profit leadership. Not only did the survey hope to measure how funding has fluctuated over the last 12 months, but participants were also asked to share where they experienced the largest loss of funding.

According to the PNC Bank 2022 State of Nonprofits Webinar, “nonprofits that rely on sources of funding that reset at shorter intervals (for example, individual gifts or annual grant cycles) may be more vulnerable to declines in revenue than those that have longer-term sources of funding like multiyear grants or contracts.”

Funding Levels Over the Last 12 Months

Responses in this segment of the survey varied widely with over 40% of respondents indicating that their funding levels have remained constant, 34.9% saying they’ve seen a decrease and 23.8% reporting an increase in the level of funding over the last 12 months. This could be an indication of which organizations will be more heavily impacted by a recession.

Data from our 2022 Not-for-Profit Trends Survey showed that 40% of respondents reported a notable increase in funding, 22% reported a notable decrease and 34% reported no change. The year over year change could be an indication that funding to the industry as a whole is starting to decrease.
Breakdown of Funding Levels by Sector

With such a varied response regarding funding over the last 12 months, the data was broken out into the specific sectors served by survey participants to get a clearer picture of the macro outlook in each of those sectors.

**ARTS & CULTURE**
- **16.7%** Increase
- **44.4%** Decrease
- **38.9%** No change

**EDUCATIONAL**
- **29.6%** Increase
- **29.6%** Decrease
- **40.8%** No change

**NONPROFIT HEALTHCARE**
- **44.0%** Increase
- **16.0%** Decrease
- **40.0%** No change

**SOCIAL SERVICES/COMMUNITY SERVICES**
- **27.2%** Increase
- **37.0%** Decrease
- **35.8%** No change

**TRADE, MEMBER, PROFESSIONAL ASSOCIATION**
- **33.3%** Increase
- **22.2%** Decrease
- **44.5%** No change
Where Has The Money Gone? Sources of Funding

Organizations receive individual contributions and donations from corporations as well as grants. For those that indicated their level of funding has decreased, the survey sought to determine where the largest loss of funding has been felt.

LOSS OF FUNDING BY TYPE

<table>
<thead>
<tr>
<th>Loss of Funding</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>No loss of funding</td>
<td>37.0%</td>
</tr>
<tr>
<td>Individuals</td>
<td>29.4%</td>
</tr>
<tr>
<td>Corporate Giving</td>
<td>19.1%</td>
</tr>
<tr>
<td>Grants</td>
<td>14.5%</td>
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Contribution Losses by Industry Sector

Various sectors reported their biggest losses in contributions came from corporate giving, individuals, and grants to varying degrees. When breaking down losses of contribution by sector, our team was able to identify a few trends.

- Majority of participants from not-for-profit organizations serving the arts and culture sector reported the largest loss in funding from corporations.
- The organizations serving the education, social and community services, and trade sectors reported that they have not experienced a loss of funding.
- If a loss of funding was experienced within organizations serving social and community services or trade sectors, it was from individual contributors.
- The only sector that reported a loss in contributions from grants was the not-for-profit health care space.
Engagement of Corporate Donors

Partnerships and support from corporate donors can come in more ways than just financial support. Donor engagement is closely linked to donor retention and is very important for not-for-profit organizations across any sector. With all of the economic and geopolitical turmoil, participants were asked about their level of engagement from corporate donors and how it compares to previous years.

LEVEL OF CORPORATE DONOR ENGAGEMENT COMPARED TO PREVIOUS YEARS

- The same: 42.1%
- Less: 40.4%
- More: 17.5%

Importance of Donor Engagement

For context, donors will be divided into two categories, loyal donors and passive donors. Loyal donors are donors who contribute to an organization on a regular basis over time. Passive donors, on the other hand, are donors who contribute on a “one-off” basis. It would be safe to assume that a loyal donor would be considered more engaged than a passive donor.

According to the 2022 Why America Gives Report from Classy, “loyal donors are twice as likely to donate when they experience financial stressors as passive donors.”

Improving donor engagement could provide valuable benefits for not-for-profits, and that improvement can start with easy steps such as:

- Improving the digital experience for potential donors so that it is intuitive and easy to use.
- Social media collaboration. Be sure to follow and interact with corporate donors regularly.
- Host events for donors to show appreciation.
Impact of a Recession on the Demand for Services

The impact of a recession on the demand for services will rely heavily on the specific sector a not-for-profit organization falls under. Organizations in certain sectors like education, social and community services, and health care, or those who serve the most vulnerable population are likely to see an increase in the demand for their services. Organizations that are considered “non-essential” may see the demand for their services decrease.

The Salesforce 2020 Nonprofit Trends Report showed that even before COVID-19 75% of nonprofits reported an increase in demand for their programs and services. 4

Rather than show a broad analysis, examining specific sectors allows us to give more valuable insight because not all organizations provide the same services and would be impacted differently.

Demand for Services by Sector

**SOCIAL SERVICES/COMMUNITY SERVICES**

- **66.7%** Increase
- **18.5%** Decrease
- **14.8%** No change

**TRADE, MEMBER, PROFESSIONAL ASSOCIATION**

- **11.1%** Increase
- **55.6%** Decrease
- **33.3%** No change

**NONPROFIT HEALTHCARE**

- **56%** Increase
- **12%** Decrease
- **32%** No change

**EDUCATIONAL**

- **40.7%** Increase
- **26.0%** Decrease
- **33.3%** No change

**ARTS & CULTURE**

- **22.2%** Increase
- **66.7%** Decrease
- **11.1%** No change
Recruiting, Retention, and Innovation

The Great Resignation had far-reaching effects on for-profit businesses and not-for-profit organizations alike. Workers began reassessing their values to better protect their free time and work with a greater sense of purpose, and in response, for-profit companies pivoted to meet those demands. In most cases, not-for-profit organizations were not able to match those offers, having already been forced to operate on limited resources.

As a result, not-for-profit organizations have been left understaffed. Filling those open positions has not been easy and more than a few years after the peak of the pandemic, there are still vacancies.

In a National Nonprofit Council survey, 60% of respondents saw a job vacancy rate of 10-20% while 16% saw a job vacancy rate of more than 30%.

IMPACT OF FINANCIAL MARKET CONDITIONS ON RECRUITING

- **60.4%**
  Fewer candidates are applying to our organization / harder to find talent

- **29.4%**
  Talent / recruitment pipeline has remained the same

- **10.2%**
  More candidates are applying to our organization / easier to find talent
An overwhelming majority of participants indicated that turnover has either stayed the same or increased. Based on these responses, it’s clear that turnover is a common trend within the industry, and given the current financial market conditions, this trend will likely continue.

Talent retention and turnover go hand-in-hand, and to some degree, turnover is inevitable, especially within the not-for-profit space. Similar to for-profit companies, turnover is much higher in some departments verses others, and as a follow-up question, participants were asked to share which departments they see the most turnover in.

**TURNOVER BY DEPARTMENT**

- Operations: 46.4%
- Volunteer Coordinator: 17.9%
- Fundraising: 15.7%
- Human Resources: 8.5%
- Marketing: 6.4%
- Finance: 5.1%

Staying Competitive and Exploring New Strategies

Despite decreasing budgets and difficulty filling positions, the industry has shown resilience and perseverance by attempting to innovate and revisit programs and processes to remain competitive. The majority of participants reported looking within their own organizations for areas of improvement and attempts to improve performance and longevity.

**RECENT ATTEMPTS TO INNOVATE**

- Taken other measures to innovate: 47.2%
- Collaborated with other organizations to deliver programs and services: 45.9%
- Created new programs or services: 42.1%
- Targeted new populations: 33.6%
- Reviewed your mission: 14.0%
- Changed your mission statement: 14.0%
Adapting to Technology

Not-for-profits are using technology but to different degrees of success across various departments. As an example, a customer relationship management system is one of the more highly utilized forms of technology and seems to be used most by fundraising and marketing departments and the largest technology gap is found within operations departments. According to Salesforce’s 2020 Nonprofit Trends Report, “over 71% of respondents state that the technology they use at home is more productive than what they use at their nonprofit. Further, 86% of their respondents said that mobile was important to them when it came to fundraising activities, but only 31% use mobile capabilities for their constituents.”

Analyzing the data from our respondents, it seems that organizations are planning to implement and utilize new technology in 2023.

Implementation And Utilization Of Technology In 2023

54% of respondents indicated that they will be implementing or utilizing technology in 2023.

46% of respondents indicated that they would not be implementing or utilizing technology in 2023.
Implementing the New Lease Accounting Standard

Transitioning to a new accounting standard is never an easy task, there are a lot of moving parts, and it can be overwhelming for both for-profit businesses and not-for-profit organizations. The new lease accounting standards have already been effective for the majority of not-for-profit organizations after a delay due to COVID-19.

The majority of respondents indicated that they were unfamiliar with the new lease accounting standard. As mentioned previously, the standard will not apply for some organizations, but based off the responses, many more may no longer be compliant.

LEVEL OF DIFFICULTY ADOPTING THE NEW LEASE ACCOUNTING STANDARD

- Unfamiliar with the new lease accounting standard: 55.3%
- No difficulty: 18.3%
- Moderate difficulty: 16.6%
- Not sure where to start: 6.0%
- Extreme difficulty: 3.8%
Want to Learn More?

As organizations continue to navigate a myriad of challenges, UHY continues to keep an eye on emerging trends and noteworthy operational shifts within the space. If you work for a not-for-profit organization, we encourage you to contribute to future surveys, in addition to browsing our various services to see how UHY might help your organization implement future-oriented solutions, overcome unique challenges, and ultimately serve your communities—and society—as frequently and effectively as possible.

END NOTES

1. Every.org, Why People Give or Stop Giving to Nonprofits, February 20, 2020
2. PNC Bank, State of Nonprofits 2022, December 2022