CPA Practice Advisor

survey reveals that nonprofits' hearts may be bigger than their wallets.

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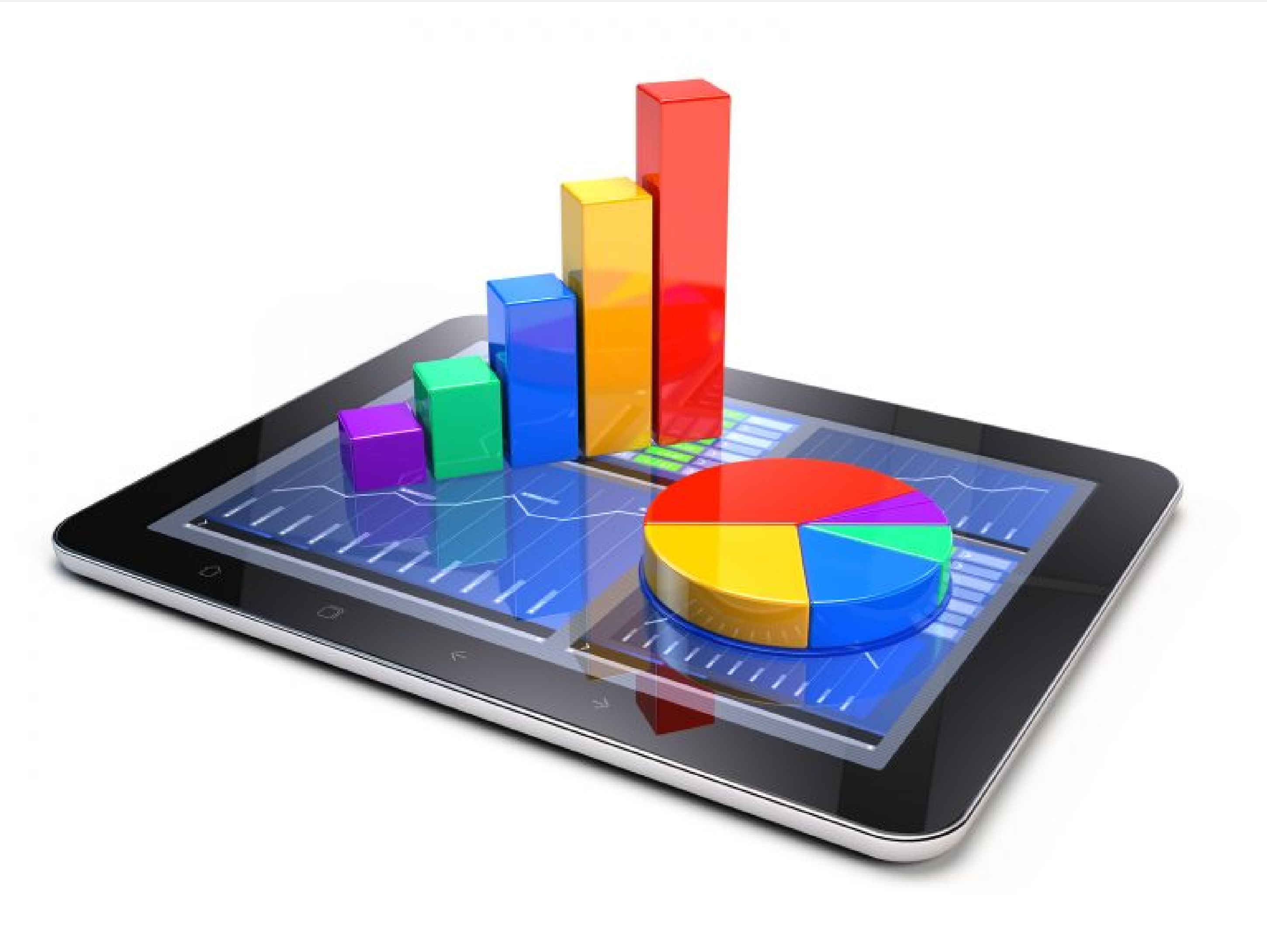

Almost half of nonprofits in the U.S. hope to expand their programs in the next two years, but many organizations may lack the financial strength to fuel sustainable growth.

This is among the top findings of ***Nonprofit Standards***, a benchmarking survey

Managing growth registers as a concern for 2 in 5 nonprofits, but the sector overall could be underestimating the road ahead. Some of the financial warning signs in the survey findings include:

1. Nonprofits are not prioritizing liquidity—a crucial safety net to weather any funding disruptions. More than half (51 percent) of nonprofits have less than 6-months of operating reserves. While the right level of operating reserves varies by organization size and sector, establishing a 6-month supply of operating reserves is best practice overall.

Despite this gap, executives remain unfazed by low liquidity levels: 34 percent say maintaining adequate liquidity poses no challenge, and 40 percent say it is a low-level challenge.

2. About 1 in 5 nonprofits could be at risk of falling into the starvation cycle: underfunding necessary infrastructure—new technology, employee training, and fundraising expenses—in favor of high programmatic spending. These organizations spend between 90-99 percent of expenditures on program-related activities, compared to the average nonprofit that allocates 77 percent.

"High programmatic spending can look deceptively positive on a statement of activities, but the model is unsustainable. While meeting a community, national, or global need is the mission of nonprofit organizations, it is not productive—for the nonprofit or the people it supports—to undermine the organization's long-term viability," said Adam Cole, partner and co-leader of BDO's Nonprofit & Education practice. "Investment in new technology, which has the potential to streamline operations and reduce costs over time, is often the first cut in the starvation cycle."

3. Nonprofits are still held to unrealistic standards for overhead spending: About 3

"Program expansion is not always the right choice for nonprofits. A desire to demonstrate impact and growth can sometimes lead nonprofits to divert resources away from their core mission-focused services," said Laurie De Armond, partner and co-leader of BDO's Nonprofit & Education practice. "Maximizing impact in a sustainable way often comes down to making smart choices about which programs are right to fund."

Other top findings include:

Mergers & Collaboration

- Nonprofits could be dismissing mergers or strategic partnerships as an avenue to achieving financial sustainability too quickly. Nearly 4 in 5 nonprofits say merging with a similar nonprofit is not at all likely.
- Collaboration is not at the forefront of nonprofit's future plans, but more than one-third of nonprofits say it is somewhat likely or very likely they will enter into a strategic partnership with a similar nonprofit in the next two years.

Human Resources

- Compensation remains the number one employee satisfaction issue: 59 percent consider it a moderate-to-high level challenge.
- Recruiting and retaining nonprofit staff and employees are a high or moderate challenge for 3 in 5 nonprofit organizations.

Technology

- A nonprofit's ability to keep pace with changing technology is a growing employee

- Tax reform and the myriad of accounting changes (lease accounting, revenue recognition, changes to the presentation of nonprofit financial statements) are top of mind. More than 2 in 5 nonprofits consider the time and effort required to deal with government regulations and legislative changes a moderate-to-high challenge.

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