

# NOT-FOR-PROFIT & EDUCATION

## 2019 Industry Perspectives Report

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# INTRODUCTION

## Perspectives on Change in the Not-for-Profit Sector



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Even in the best of times, running a not-for-profit stretches the ingenuity and resourcefulness of its leaders.

Charitable organizations feed the hungry, educate the next generation, house the homeless, fund medical research, and serve their membership, all while keeping up with the continuous evolution of technology and addressing the needs of employees, volunteers, and donors.

As 2019 is already emerging as a year when many not-for-profits are being asked to do even more with less, how will the leaders of these vital not-for-profits navigate these challenging times and ensure their organizations will continue to thrive?

To find out, we consulted executives from a diverse array of not-for-profits in the areas of higher education, associations, foundations and grant-making organizations, social services, and housing organizations.

During these confidential interviews, we invited the executives to drill down deep and discuss not only what is worrying them most, but where they see opportunities for advancement. As a result, we discussed new forms of crowd-sourced fundraising and the internal debate about whether artificial intelligence is adequately being deployed on their behalf. We learned that many organizations have succession planning top of mind as an entire generation of founders is retiring, and we were encouraged to find that many organizations are embracing innovative solutions to solve financial challenges.

In short, the information we collected was compelling and confirms that the not-for-profit industry continues to evolve. To share these valuable insights, I am pleased to present CohnReznick's inaugural Not-for-Profit & Education Practice Perspectives Report.

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# FINANCES, TECHNOLOGY, TALENT: GREATER CHALLENGES, NEW OPPORTUNITIES

Not-for-profits serve thousands of different and sometimes very specific constituencies and, as such, each faces at least some singular hurdles. However, the rapidly evolving landscape of fundraising and technology means that there is a wealth of common concerns among the leaders with whom we spoke.

This report will present the perspectives of not-for-profit industry leaders, representing five key segments of the not-for-profit industry and issues relevant to those areas. But first, we share the issues that our interviewees mentioned most frequently, specifically:

- The current state of philanthropy
- Key thoughts about financial stability
- How to take advantage of shifting donation models
- Whether their systems are both optimized for achieving their mission as well as protected from a cyberattack
- Whether they are retaining and attracting top talent as a new generation comes of age

## The Shifting Landscape of Donors Today: New Demands and the Potential of Crowds

Philanthropy is changing its shape. In 2017, the rallying stock market helped boost charitable giving to record levels of around \$410 billion, according to Giving USA. In fact, the biennial 2018 U.S. Trust Study of High Net Worth Philanthropy found that 90 percent of affluent households made donations in 2017.

But the Tax Cuts and Jobs Act of 2017 could potentially slow charitable giving because, according to Tax Policy Center estimates, it will reduce the marginal tax benefit of donations by more than one quarter and raise the after-tax cost of donations.

“We believe there is merit to published claims that wealthier donors, who tend to give to arts, cultural institutions, research facilities, and universities, are less likely to significantly change their giving habits.”

**Tom Lanning, Tax Partner, CohnReznick  
Not-for-Profit & Education Practice**

According to Tom Lanning, a tax partner in CohnReznick’s Not-for-Profit and Education Practice, “We believe there is merit to published claims that wealthier donors, who tend to give to arts, cultural institutions, research facilities, and universities, are less likely to significantly change their giving habits. We also believe middle-class donors, as a whole, may be less likely to donate as generously as they did in the past.”



As a result, fewer donors might mean more competition for the same pool, and more power to those who continue to give. Already, affluent donors are demanding control over their giving. These donors are more sophisticated and want more visibility, immediate information, and the ability to make online transactions and advise on how their donations are managed and spent.

“There is a shift happening in the way people think about charitable giving,” one administrator said. They want more control and transparency, another executive explained. “More transparency translates to, ‘How are organizations using the money?’”

In other words, large donors are increasingly demanding identifiable, measurable outcomes, such as how much money is actually used to support the charity’s mission and what, specifically, is the impact of their donation. This need for more transparency has led organizations to figure out how to better measure things like “impact.”

Meanwhile, an emerging generation of young donors is challenging charities from another angle: “A younger generation that’s coming up has a more practical view of the world,” one executive said. “Some are coming into wealth, but they don’t want to put their money into a pool – they want to be engaged with the charity. Many want to be chair of the board of directors or, if not, they may go off to create their own charity. They want flexibility and privacy.”

To keep up, institutions are adopting ideas from internet-based platforms such as crowdsourcing.

One executive said, “We are looking at all revenue streams. Specifically, we’ve worked with consultants to look at places where we were not getting a bang for our buck – everything from products to pricing for services.”

“Everyone is trying to figure out how to engage millennials and the digitally savvy generations to follow,” commented John Alfonso, a partner and leader of the Not-for-Profit & Education Practice at CohnReznick. John has helped clients restructure and realize operational efficiencies. He points to the rise in online cause-related marketing campaigns, such as those that raise money for every Twitter and Instagram post that includes a hashtag relating to a sponsor’s campaign.

“Event-driven fundraising is not as popular as it used to be; millennials and Gen Z populations are not as fond of black tie dinners and walkathons as are their parents.” Instead, he said, organizations are having success with internet-based methods such as crowdfunding campaigns

**46%** of millennials give to crowdfunding campaigns.

[nonprofitssource.com](http://nonprofitssource.com)

where, for example, a not-for-profit’s staffers and donors each get 100 friends to donate to a campaign.

Opportunities and rewards await not-for-profits that meet the demands of the emerging donor class.

### “We Can’t Keep Up”: The Challenge of Digital Transformation

In the not-for-profit world, technology is seen as both savior and conundrum.

Organizations, to various degrees, are already engaged in digital transformation, seeing many advantages, including identifying new revenue streams and getting a better handle on budgeting and expense management. To stay competitive, there is really no choice but to invest and adapt. The ultimate goal is to optimize technology to better serve the organization’s mission.

“We always want to be more efficient and effective,” explained one executive officer. “We have lots of information systems that don’t talk to each other, so we have to manipulate data to be more useful. We are always looking for new tools to help manage the process better.”

Yet many not-for-profits don’t have the expertise to stay on top of rapidly changing technological advances and face hard work in conditioning workforces to adapt to change.

“We can’t keep up,” one executive admitted.

Cybersecurity and threats to privacy are major concerns. “Threats are always there and we have to evolve and stay on top of that,” said one official who has seen shifts and cost increases in software. “Everyone wants everything in the cloud.” The official added that moving to the cloud has not saved money, rather it has simply shifted costs from maintaining systems onsite to beefing up information security.

Yet many maintain a positive perspective on the role technology can play in solving their institution’s core challenges. As one executive put it: “We are going through



a digital transformation internally. This is about changing business processes, shaking loose old behaviors and mindsets. It's forward-leaning – we are trying to catch up where we have gotten behind and also trying to look forward.”

Newer technologies, like artificial intelligence and cryptocurrencies, are promising but still need to be better understood. For example, cryptocurrencies are still very volatile and their value needs to be stabilized before they can be relied upon. According to The Chronicle of Philanthropy, an estimated 500 to 1,000 not-for-profits in the U.S. have already established accounts with various cryptocurrency services. The American Red Cross and DonorsChoose.org are among those receiving donations, and the anonymous Pineapple Fund gave \$56 million in bitcoin to 60 charities by the end of 2017.

But one foundation executive was cautious: “Recently, charities are accepting cryptocurrency. We are seeing this more on the West Coast. It's not really a security or even art or real estate – you can't see it or hold it. We are not really sure what it is. Is it a disruptor or a scam?”

“AI offers significant opportunities and challenges. The first step to deploying AI should be a fundamental understanding of how AI can impact your organization.”

**Keith Denham, Managing Principal,  
CohnReznick Advisory**

At least some not-for-profits are also wrestling with the impact of artificial intelligence. There is little doubt that AI could help identify donors and show how to approach them and eliminate routine tasks that now take up a lot of time and effort.

Keith Denham, Managing Principal of CohnReznick Advisory, shared, “AI offers significant opportunities and challenges. The first step to deploying AI should be a fundamental understanding of how AI can impact your organization. This will entail a strategy on how the organization will use AI tools and what business challenges it seeks to improve. Also necessary will be employee awareness of the changing landscape and robust change-management capabilities to help ensure that AI-enabled technologies are adopted across the organization.”

There is a bright future ahead for institutions that learn how to appropriately leverage technology to achieve their goals.

## 10 THINGS NOT-FOR-PROFITS SHOULD DO TO MINIMIZE THE IMPACT OF A CYBERATTACK

According to Shahryar Shaghghi, CohnReznick Cybersecurity principal, there are 10 key tactics that not-for-profits can implement to mitigate the effects of a cyberattack.

- 1 Start by assessing your cyber risks; what is core to your business and asset valuation
- 2 Understand motives of hackers
- 3 Evaluate internal capabilities and talent
- 4 Outsource to Managed Security Service Providers (MSSPs) and hire consultants
- 5 Treat this as the cost of running your business
- 6 Determine who has access to what
- 7 Classify and segment your critical data
- 8 Perform backups and patch management
- 9 Conduct ongoing security awareness training and social engineering testing
- 10 Have a tested incident response plan

*[For more information on how not-for-profits can minimize cybersecurity risks, click here.](#)*



## A Generation Shift: Getting the Right People and Keeping Them

At the heart of any successful not-for-profit organization is its workforce, but building a strong staff has become more difficult. Even in easier times for hiring, many not-for-profits can't offer the salary, bonuses, and career advancement opportunities that the for-profit sector can. But under current conditions, with unemployment rates at their lowest in decades, competition for new staff has only intensified. And there is a premium on employees who are not averse to digital transformation.

As one executive at a social service not-for-profit said, one common perception is that "finance people in their 20s, 30s, and 40s don't see this as a place where they can grow. It attracts people later in their careers." While people late in their careers may be more highly skilled, they may not want to work full time or at the same pace as in their previous occupation. Many, in fact, are choosing to move from high-pressure jobs to opportunities that offer a slower pace.

Even hiring at the lower levels is getting tougher: "We do see hiring challenges with hourly employees, like in public safety and facilities management positions," said one higher education administrator. "We have 20 open custodial positions. Unemployment is at an all-time low. The country is at full employment." The executive further explained, "People looking for jobs are not properly qualified for the positions available."



## ORGANIZATIONAL DIVERSITY

Maintaining diversity and inclusion in hiring practices, compensation and promotion practices, and selection of outside vendors has become mission critical for many not-for-profit organizations.

However, according to CohnReznick's most recent [Not-for-Profit and Education Financial Management & Governance Survey](#), only 28% of respondents believe their organizations are extremely diverse, while just 10% give that same rating for their boards.

When they do sign on, younger workers bring the expectations of a new generation. Learning to adapt to their needs will be a crucial management challenge in the coming years. Millennial and some Gen Z workers just entering the workforce seek more organizational transparency and creativity in their work experience, and they want greater input. They want more opportunity to be entrepreneurial and to foster change in their community.

Yet younger workers often have limited career opportunities. It is often difficult for younger employees to move up in not-for-profit organizations. According to a recent report by The Bridgespan Group, 44 percent of C-suite positions were being filled by members of other organizations. Internal promotions resulted in just 29 percent of new hires, half the rate of the for-profit sector.

Staff diversity remains a difficult challenge as well, and it starts at the top. Eighty-four percent of not-for-profit board members and 90 percent of board chairs are white, and at least a quarter of all not-for-profit boards are all white, according to BoardSource, an organization that seeks to improve not-for-profit governance. There has been virtually no change in 20 years, it says. GuideStar, which gathers information about U.S. not-for-profits, says women make up 47 percent of the not-for-profit CEOs, but the largest organizations are almost always run by men.

Not-for-profits will need to meet the challenges of the new workforce and attract a more diverse leadership in order to grow and thrive.



# HIGHER EDUCATION: SUSTAINABILITY IN AN ERA OF DECLINING ENROLLMENT AND STRETCHED ENDOWMENTS

Recent media attention has focused on an incredibly competitive admissions environment and has highlighted certain enrollment practices. It is clear, however, that financial sustainability and, more specifically, the continuing downturn in applicants remain among the top challenges facing most of this country's 4,000-plus institutions of higher learning.

Several factors have accelerated this decline. The first is demographics. After years of steady growth, 2017 marked a turning point for higher education, when the number of high school graduates dipped as we head toward what is predicted to be a decade or so of stagnation, according to a report by the Western Interstate Commission for Higher Education.

The problem is particularly acute in the Northeast, the report found, the area that has both the highest concentration of four-year colleges and the fastest decline in high school graduates. Not only is the pool of college graduates smaller, it is changing in composition and location. The changing demographics mean that northeastern schools will need to adjust their positions to adapt to the desires of this new population of students.

"We are trying to figure out how to make ourselves more affordable," said an executive vice president of finance and administration. "We are adding benefits to underrepresented programs on campus and trying to be innovative. We are in a good financial position overall, but the next couple of years will be interesting."

"Given the current climate in the federal government in terms of people coming in from other countries for purposes of studying, we are seeing the number of visas reduced for international students, especially China and India," said one executive vice president of finance from a medium-sized university.

The decline in enrollment is being further exacerbated by the rise of alternative less costly and less time-consuming options for students, including online learning, two-year colleges, and a wave of emerging options.

Another interviewee said: "We face competition in the market – we are looking at non-traditional competition like corporate partners, international institutions, for-profits, and not-for-profits. Lots of groups in the market are doing education and research. There's a whole new group of competitors that will drive decisions like pricing and the value students get and how that value is perceived in the market."

As one of the major disruptors faced by today's educational institutions, enrollment pressures present opportunities for colleges and universities to reinvent their traditional business model. Recently, St. John's College, with campuses in Maryland and New Mexico, became one of several colleges and universities to announce plans to reset its tuition in an effort to grow enrollment. This is one solution being pursued by a growing list of institutions, bringing with it the need to assess any unintended consequences.

John Toscano, a partner in CohnReznick's Not-for-Profit and Education Practice and an advisor to educational institutions, said that tuition resets may make sense in some cases, but only if proper considerations have been given to the results of such a decision. While the primary objective of a tuition reduction is to grow enrollment in a highly competitive market, administrators have a duty to identify the risk of decreased revenue from those students and families with the ability to pay without financial assistance.

"This very issue is an example of where an institution's strategic and financial budgets must be carefully monitored and aligned to ensure that the gap doesn't widen," he said. "Reduced student-derived revenue will give rise to the need for increased donor engagement, reduced costs, and other means of replacing that lost revenue." He added that the idea that today's prospective students will one day be part of an institution's alumni base increases the



## “Technology risk assessments play an important role in an institution’s overall risk management.”

**John Toscano, Partner, CohnReznick’s Not-for-Profit & Education Practice**

significance of enrollment management as a key component of the strategic plan. Communicating and demonstrating value reaches beyond attracting new students.

“An institution’s value proposition becomes a more significant part of the strategic plan as a result,” he added.

Concerns about long-term financial health reach beyond declining enrollments. Technology risk management and keeping pace with the ever-changing digital environment is a significant concern. Much like other organizations that collect large amounts of personal information, colleges and universities are extremely vulnerable to cyberattacks. According to EDUCAUSE, a not-for-profit association of IT leaders and professionals in higher education, the top issue for their members is the security of institutional data and systems, and ensuring executive engagement is a high priority.

“As we continue to move a lot of systems to the cloud, we are mindful of security issues – firewalls, authentication, integrating these systems to ours,” one executive explained.

Technology’s rapid evolution presents opportunities for colleges and universities to take an introspective look at systems in place for the protection and cultivation of its students. “We are looking at a virtual one-stop shop for students,” one executive explained. “We will have kiosks in offices and now we want to create a system that can share documents, where you sit with one person and get things done, not pinball around to other offices.”

John notes that several institutions have undertaken technology risk assessments and that the most effective information security plans are those that are risk-based and include engagement from all levels of the institution. “At the completion of a recent, first-time assessment,” he said, “our teams have found themselves educating our clients that the responsibility for data security reaches beyond the institution’s IT department.”

Additionally, colleges and universities use technology assessments to determine where investments may be needed to update systems used in enrollment management. They are also enhancing systems for ongoing communication as a means to continue demonstrating value throughout both the enrollment and post-graduation periods.

“Technology risk assessments play an important role in an institution’s overall risk management,” John noted. “Done properly, these assessments will contribute to sustainability efforts by identifying reputational and financial risks and creating plans to mitigate or leverage them.”

Flexibility and the willingness to take a hard look at changing conditions will be the key to success for institutions of higher education.

### CRISIS MANAGEMENT CONSIDERATIONS FOR HIGHER ED

In a recent [survey](#) conducted by CohnReznick’s Not-for-Profit and Education Practice, more than half of the respondents did not have or were not sure they had a plan in place to respond to a reputational crisis.

In today’s world of cyberattacks and social media crises, and with the speed at which news on scandals is now disseminated to the public, we would have expected to see more organizations taking the necessary steps to put a formal crisis management plan in place.

Once a crisis hits, such as with the recent admissions scandal, most institutions have a very limited window of time during which they need to execute an effective and appropriate response.

Higher education leaders should develop a comprehensive crisis management plan that clearly identifies the who, what, when, where, and how. Documenting a plan that addresses alternative outcomes, and working through each with the team, will help these institutions mitigate the risks presented by a reputational crisis.



# ASSOCIATIONS: TRANSFORMING TO A SUBSCRIPTION MODEL

Professional and trade associations have a long and storied history in the American economy, but they are alien to many millennials and Gen Zers, which has contributed to declining memberships. The perception in the field is that older members prefer personal contact, while the rising generations are technology-driven and use the internet and social media to derive information and peer interaction that historically was provided through association programs as a benefit of membership. This trend, coupled with the consolidation of member companies, has led to declining memberships.

As a result, association leadership is focused less on making adjustments to address generational expectations and instead on breaking the mold and establishing a new value proposition. As one association executive said, “We need to think through how to transform ourselves.”

One focus of associations is how to get members not just to write checks for big events, but to rely on a constant flow of services and information that would be provided on a subscription-only basis.

The interviewee added that the association needs to give people something to consume “when they want it, how they want it, and in smaller chunks.”

This executive isn’t alone in his thinking. Many association executives, especially those in organizations that are too dependent on membership dues, are interested in increasing revenue from non-dues-based sources, such as sales of services, publications, and fees for seminars and trade shows.

“Highly successful membership organizations usually have diversified revenue portfolios,” Dan O’Shea, a partner in CohnReznick’s Not-for-Profit and Education Practice, noted. “While the non-dues revenue discussion has been going on for over 20 years, what has changed is the

“Organizations should conduct an evaluation of their foreign tax exposure to avoid a surprise tax bill.”

**Dan O’Shea, Partner, CohnReznick  
Not-for-Profit & Education Practice**

heightened urgency in finding the solution. Associations are like any business – to succeed and be sustainable, they need to identify, anticipate, and adapt to changes in demographics.”

To keep their membership stable, many associations have been recruiting members internationally, but that has had consequences on the taxation front. One financial officer lamented: “We are a U.S.-based organization that hosts international conferences, for example, in Germany. So the tax laws in Germany are what we need to adhere to, but we have no one on staff who knows these legal and tax issues.”

She added, “We used to have smaller events, but we are growing and going to some countries three to four times a year.” The good news is that these events have brought in a significant amount of new income. However, the downside is that the income is now large enough that it crosses a threshold in which the host country now demands that the association file a local tax return – which requires expertise it does not have.

Or as another officer summed up neatly: “As we become more global, we are stumbling on a gap in our own skill set. We need to know more about laws and regulations in other countries.”



Dan noted, “Organizations should conduct an evaluation of their foreign tax exposure to avoid a surprise tax bill. Those without in-house international tax expertise should engage a reputable firm to assist with these studies.” It’s also a good time to evaluate whether information systems are tracking foreign-sourced revenue and enabling you to communicate securely and effectively with overseas members.

“It is incumbent upon association executives to be aware of evolving Value-Added Tax (VAT) and Goods and Services Tax (GST) regulations for their foreign sourced revenue,” Dan added. These are consumption/sales taxes imposed on the sales of certain goods and services that can apply to for-profit and not-for-profit organizations.

Additionally, Bhavesh Vadhani, a principal in the CohnReznick Advisory Technology Risk, Cybersecurity, and Privacy Practice, advises, “Associations should also be aware of the General Data Protection Regulation (GDPR), requiring organizations that conduct business in the European Union (EU) to protect the personal data of the data subjects who are in the EU. The new regulation requires organizations to incorporate privacy and data security into their operations by design and by default. The strict rules set a new standard for customer rights regarding their personal data. Organizations will be challenged to put policies, procedures, processes, and systems in place to comply with these requirements. And non-compliance could cost an organization significantly – impacting the bottom line, client relationships, and brand image.”

He added that systems can serve another safety net purpose: helping not-for-profit organizations with a new potential pitfall that many don’t have on their radar yet, namely the Wayfair Decision, a landmark Supreme Court decision that affects sales tax. On June 21, 2018, the Supreme Court decided *South Dakota vs. Wayfair*, establishing that states may charge sales tax on a wide array of purchases from out-of-state sellers, even if the seller does not have a physical presence in the taxing state.

This could give rise to a liability for associations or any not-for-profit that sells certain goods or services out of state. “We have been advising our clients on how to manage this exposure and satisfy the new compliance and filing requirements,” John Alfonso said. “Your financial accounting system should be designed to help you track revenue by taxing jurisdictions.”

Associations need to rethink their old ways, learn to deal with global pressures, and innovate. If they do, they will be able to meet the challenges of these changing times.

## KEY TAX CONSIDERATIONS FOR NOT-FOR-PROFITS IN A POST-WAYFAIR WORLD

Thomas Lanning, a tax partner in CohnReznick’s Not-for-Profit & Education practice, provides a brief overview of key tax issues for associations and other not-for-profits to consider in the post-Wayfair world.

- 1 Not-for-profits must re-evaluate the various states’ nexus standards in which they collect and remit taxes currently to determine if changes to reserves or additional disclosure is required for financial reporting purposes under generally accepted accounting standards, namely ASC 450 – Contingencies.
- 2 Tax-exempt organizations should determine whether they have nexus in states with economic nexus rules and, if so, examine the taxability of their products sold in those states.
- 3 To comply with the new sales tax laws, exempt organizations may need to file in more states and consider automation solutions as tools to meet the increased volume of compliance work.
- 4 To receive an exemption on a state level for sales and use tax, the seller must have an exemption certificate on file from the exempt customer. Sellers should ensure that exemption certificates are collected from customers in all states where the seller has sales tax nexus.
- 5 Not-for-profits should be looking at the implications of Wayfair from two sides – the sales side and the purchasing side.
- 6 Exempt organizations considering this new ruling may need to contemplate, for the first time, or revisit again, their multistate charitable registrations.

*For additional insights for not-for-profits in a post-Wayfair world, [click here](#).*



# FOUNDATIONS AND GRANT-MAKING ORGANIZATIONS: SOPHISTICATED DONORS AND IMPACT INVESTING

Foundations engage with their communities for support and growth, but they are also looking to achieve community impact by supporting specific initiatives and funding traditional not-for-profits. While community foundations are primarily dependent on donors for support and growth, both community and private foundations rely on the financial markets for growth in their endowments.

By straddling both sides of the philanthropic equation, foundations are addressing their financial sustainability by evaluating the changing perspectives of donors, gauging the impact of future returns in the financial markets, capturing and evaluating data, supporting the expanding needs of the organizations they support, and using new types of giving structures and venture philanthropy to make an impact.

The not-for-profit sector is continuously adapting to millennials and Gen Zs. As mentioned earlier, these younger individuals expect transparency and want more control over their contributions. As a result, foundations are altering their approach to engaging with the public by creating a public presence on social media and other digital platforms. A digital footprint ensures that a foundation remains connected with its community and remains relevant.

As one executive explained, “The younger generation of donors does not want to put their money in a pool of funds but wants to be engaged with a charity.” Social media and interactive donor portals allow data and other information to be shared quickly and directly among donors, the community, and other stakeholders.

Aside from maintaining and growing their donor base, foundations are looking to grow their endowments to protect long-term cash flow for current and future funding. Foundation executives always have one eye on the financial marketplace.

## OPPORTUNITIES FOR FOUNDATIONS

According to Patricia McGowan, a partner in CohnReznick’s Not-for-Profit & Education Practice, foundations are facing many challenges today and they also are presented with many opportunities that include:

**Data analytics** – Foundations have unique access to financial and programmatic data and can harness that data to determine the needs of the community and evaluate the effectiveness of current programs.

**Innovative initiatives** – Based on their data analytics, foundations can support innovative ideas and foster collaboration among charities to work together toward a successful solution.

**Operational efficiencies** – As charities struggle with financial challenges, foundations can identify opportunities for operational efficiencies by funding administrative support or facilitating cooperative agreements, partnerships, or mergers among charities.

**Technology** – Charities may not be able to adequately fund an information technology team with sufficient qualifications and resources to optimize technology in the digital age. Foundations may be able to assemble a team of experts that can be deployed within the foundation and shared with charities supported by the foundation to promote cybersecurity, donor portals, social media, and other technology needs.

**Community outreach** – Foundations can lead the way in improving outreach to new donors. Education and networking programs for charities, women, cultural groups, and younger donors can nurture new relationships and shared ideas.



“We are all concerned about a significant potential market correction,” an official said. “Foundations and universities typically have no operating income – we are like pensioners, living off the money we have.” Reduced returns, combined with inflation, may make it difficult for foundations to continue their current approach to spending.

In the digital age, data is the new currency. Foundations and similar organizations are capturing significant amounts of data. Finding ways to protect this information and harness it to measure community impact is key. Foundations are looking to new technologies to integrate data, enhance cybersecurity, explore donor information, and evaluate program benchmarks and outcomes.

“There is not one tool that can solve everything,” the official said. “We have to weigh costs and long-term benefits.” To address these needs, foundations are developing strategic plans for the next three to five years and allocating resources to implement new information technology plans.

In addition to presenting data in a way that satisfies their donors, foundations are looking for new ways to do what they do. “The trend for living donors is venture philanthropy with measurable outcomes,” the official said.

New giving alternatives and types of organizations are emerging, changing the dynamics in the philanthropic sector. One example is the use of donor-advised funds (DAFs). DAFs allow donors to take immediate tax deductions and watch their accounts mature and provide some control over how their money is used.

A major threshold was crossed in 2015 when the donor-advised Fidelity Charitable Gift Fund overtook United Way Worldwide for the number one spot in The Chronicle of Philanthropy’s annual ranking of charities that raise the most from private sources.

One foundation official said, “Newer, younger donors may not have the same affinity their parents had to organizations; they may not be as involved or engaged in faith-based organizations. They are using donor-advised funds because it’s simpler and they can still make recommendations as to where money goes. They can still support the organizations they want to support.”

“Foundations, and other not-for-profits, need to structure their organizations to harness the value of these new forms of philanthropy, while protecting the tax-exempt status of the traditional charitable organization.”

**Patricia McGowan, Partner,  
CohnReznick Not-for-Profit & Education Practice**

In addition to DAFs, donors are looking at using venture philanthropy through new organizational structures that allow for more flexibility and less regulation. Pointing to the Chan Zuckerberg Initiative, which uses technology to solve societal problems, as an example, an executive said: “This is not building a classic 501(c)(3), but building different structures, like limited partnerships. The trend toward different organizational models allows flexibility to do the type of work these donors want to do.”

Institutional investors have responded to this trend by creating investment funds that provide private equity or venture capital to for-profit social enterprises.

Foundations have followed a similar venture philanthropy path by using impact investing. For foundations, impact investing is a way of using the power of endowment funds to address social or environmental issues. Historically, foundations used the earnings from endowment funds to make grants or contributions to traditional not-for-profit organizations. More recently, foundations have expanded into other forms of impact investing. Foundations are choosing to invest some portion of their endowment in socially responsible companies or funds. Foundations may also choose to use program-related investments (PRI). PRIs provide debt or equity financing to both for-profit companies and not-for-profit organizations to support innovative ideas that also provide a return on investments.



Patricia McGowan, a partner in CohnReznick's Not-for-Profit & Education Practice who advises on strategic planning to achieve financial sustainability, said: "Foundations can look to DAFs to expand their donor base as well as explore the use of venture philanthropy to put their endowments to work while still supporting their initiatives. Foundations, and other not-for-profits, need to structure their organizations to harness the value of these new forms of philanthropy, while protecting the tax-exempt status of the traditional charitable organization."

While addressing the changing landscape of donors, digital platforms, and venture philanthropy, foundations are also beset by financial reporting and succession concerns.

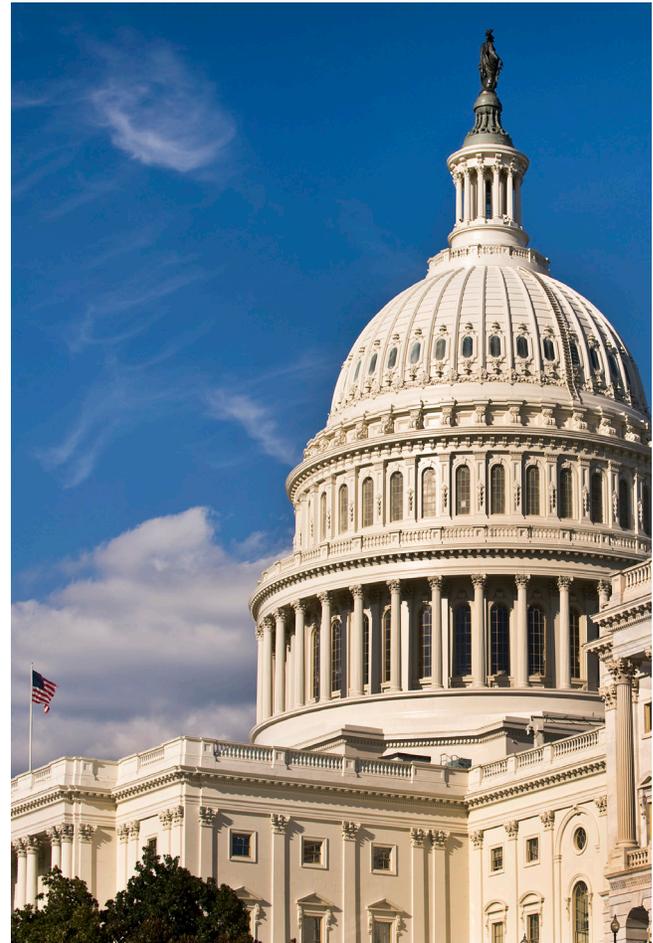
Foundations are carefully watching the impact of the recent tax reform overhaul and implementing the requirements of several new accounting standards.

"Tax changes have impacted philanthropy," said one official. "If a donor is no longer able to deduct [their charitable contribution], maybe then they'll do something differently... [Tax] advantages have been reduced due to changes in tax law."

Patricia points out that, in addition to the new tax law, a new set of accounting standards issued by the Financial Accounting Standards Board (FASB) will be implemented over the next three years. "This is one of the biggest things on our radar," she said. There are significant changes in standards that will apply, including financial statement presentation, revenue recognition, and lease accounting.

Risk management has been a focus of foundations for years, leading to much stronger governance. However, succession planning is an area of risk management that is still being addressed by some foundations. Many foundations were founded in the 1970s and are facing their first real change in leadership.

"The biggest concern now is about staffing and succession planning," one executive told us. "We don't have people in place to replace top management; there's a learning curve in this industry, probably higher here due to the regulatory complexity."



Another executive added: "It's relatively new to make [a succession plan] more formal. We are thinking deliberately and it's an effort on a day-to-day basis and we are still struggling here. Part of it is the people we have and the environment we operate in – it's a very caring environment. We have been overly accepting of performance if people are here for the right reasons. This has created skill gaps and mindset gaps as well."

The new face of philanthropy requires foundations to change their traditional way of doing business and many have already started. This is not the time for complacency; it is a time to create new ways to meet society's needs.



# SOCIAL SERVICES: SLIMMING DOWN, VOLUNTEERING UP, AND GETTING DIGITALLY SAVVY

Social service agencies are being strained by the same needs for technological change and the shifting nature of donor models, but they also face big challenges in staffing, from the board of directors all the way down to their lifeblood: their volunteer force.

“What does a volunteer mean today?” asks one executive. “Finding volunteers has changed over time. It is more episodic. You don’t see people who have been volunteering with your organization for 20 or 40 years. This generation has been volunteers for a long time, but the younger generation now doesn’t stick with a cause. New folks are more about the experiences vs. long-term volunteering.” He concludes, “We need to live in both those worlds to create an experience relevant for the younger generation.”

The number of not-for-profits in the social services arena continues to grow – maybe because there is always more work to be done. However, this growth comes as both the federal government and states are cutting back on funding. Thus, the race is on to continue to be flexible and innovative as well as remain relevant to communities being served.

“Every time there’s a new Congress or administration, there’s talk about which programs will now be affected,” one chief financial officer explained.

The new environment is so tough that one of our executives reminded us, “Now it’s about creating a business model that allows us to keep doing what we are doing. Sustainability is not a foregone conclusion.”

“ People aged 35-54 are most likely to volunteer (28.9% and 28% respectively) while 20- to 24-year-olds have the lowest rates (18.4%).”

[nonprofitssource.com](https://www.nonprofitssource.com)

Given these intense financial pressures, it is no surprise that operational and other efficiencies are an important goal of many social services executives. “Efficiency is what we need,” one said, adding that the right tools “help us scale.”

Of course, new technology is not only expensive; it can be wrenching to implement, even when the investment dollars are there. “We are technology-challenged,” said one executive. “We did just install a new accounting system and it was like surgery replacing a backbone. Everything is tied to this.”

“Yet technology is the surest way to create efficiencies and cost savings in the long run,” advises Michael Good, a partner serving social service organizations in CohnReznick’s Not-for-Profit and Education Practice. One institution, for example, is seeking greater efficiency by using software to integrate new human resources and payroll systems.

An executive there said: “When we get done, it will be an employee life cycle system – to help enable recruitment, benefits management, and payroll on the same system. We are also looking at fundraising software to help us enable annual campaigns, to keep in touch with donors.”



Another executive said his organization is using dedicated software that manages fundraising and donor information and is further aiming to integrate it with Workday, a cloud-based software program that combines finance and human resources planning and information streamlining.

Michael also notes that, while technology is worth the investment, there are plenty of old-fashioned financial and operational solutions that are also working to make this segment more sustainable. Some groups are slimming down satellite offices and sharing office space with other groups. Others are undertaking joint ventures or even mergers when there is an overlap of services. Finally, some are even opening for-profit stores or coffee shops or other services to help bring in additional revenue.

As charities look for new sources of revenue, they may benefit from venture philanthropy. Charities can look to venture philanthropists, foundations, and/or venture investment funds to fund their initiatives. Venture philanthropists want to bring entrepreneurial energy and rules to philanthropy. They usually have a goal in mind and are looking to invent a new way to reach it. A charity or a subsidiary of a charity can position itself to be the beneficiary of venture philanthropy. Although funding from venture philanthropists requires measurable financial and mission outcome results, it often allows the receiving organization to be flexible and inventive in how to reach the agreed-upon goal.

“Technology is the surest way to create efficiencies and cost savings in the long run.”

**Michael Good, Partner, CohnReznick  
Not-for-Profit & Education Practice**

The need for change – and the rewards for making sure it happens – is also reflected in how organizations are governing themselves. “We are reviewing policies that haven’t been reviewed in 20 years,” said one official.

In part, this means creating more transparency in decision-making. It also means re-evaluating the relationship between boards of directors and executive leadership. Boards may be more engaged these days, and that creates opportunities and benefits.

“The challenge is to find people that are a fit with our organization,” one CFO said.

While it may be beneficial for not-for-profits to have board term limits to keep the energy level up, board members with a long-term investment in the organization can also be beneficial due to their institutional knowledge, but only if the board member is productive and very involved.





# HOUSING: THE NEW FRONTIER OF PRIVATE MONEY

For not-for-profits in the housing market, these are times with many crosswinds.

Demand is rising for affordable housing, but so are construction costs and uncertainty over government funding. At the same time, new ways of financing and new investment opportunities are emerging to include the new federal income tax incentive – opportunity zones. Additionally, more private money is available for eco-friendly and socially beneficial projects. Beth Mullen, CohnReznick Partner and Affordable Housing Practice Leader, contributes, “Housing-focused not-for-profits have been thinking creatively on how to engage the for-profit sector in financing community development amid rising construction costs and shrinking government funding. Qualified Opportunity Funds are one of the newest tools.”

Since many housing not-for-profits are, to a large extent, dependent on the public sector, the possibility of losing crucial government resources is a major concern and has already made doing business more difficult.

“There has been a tightening of federal funding for affordable housing, rent subsidies, and for building affordable rental homes,” said one executive.

One not-for-profit executive in the affordable housing industry said too much reliance on government funding can constrain investment in the future.

“We want to be on the forefront of leveraging current technology,” the executive said, “but it’s always a matter of making choices. We have to choose between technology advances; there’s competing demands from various managers in our office.”

## OPPORTUNITY ZONES

Opportunity zones are designated census tracts that have been approved by the federal and state governments. There are currently more than 8,700 opportunity zones across all states, territories, and the District of Columbia, in both rural and urban locations.

The U.S. Department of Treasury provides tax incentives on investments in economically disadvantaged communities that are designated as Qualified Opportunity Zones (QOZs).

Fortunately, leaders are seeing a broadening of funding sources, including private charities. New online lending options are being created. “We are trying to get into that space to streamline the borrowing process,” said an executive.

Executives who have seen the growing interest in socially aware projects say investors are exploring more creative ways to put together financing packages that don’t require bank financing. And the new tax law – though it has drawn concern among not-for-profits – may be helping in some ways in this area. “There’s more motivation for people with capital gains they want to defer,” one official said.

For some not-for-profits, navigating these times requires looking anew at how they operate, refreshing the leadership and membership of boards, taking risks, and being more aggressive. “We used to be conservative,” said an executive, adding, “we’ve started more initiatives in two years than in the last ten.”



But costs are a nagging problem, particularly on the coasts and in their metropolitan areas. Construction price increases have eaten into developer fees. As one executive said, the fees are essentially the funds the organizations get for building the projects. “We get a profit up front,” the official said.



“Housing-focused not-for-profits have been thinking creatively on how to engage the for-profit sector in financing community development amid rising construction costs and shrinking government funding. Qualified Opportunity Funds are one of the newest tools.”

**Beth Mullen, Partner, CohnReznick  
Affordable Housing Practice Leader**

“We don’t make money from cash flow. We get paid for finding projects and doing the work it takes to build. The process takes several years. The only way for us to pay for increased construction costs is for us to reduce the developer’s fee.”

Different strategies are being employed. Some not-for-profits have merged to create a greater impact in their community. In Boston, not-for-profits and the city are trying to purchase apartment units from the private market to keep them affordable, according to reporting in the local media.

But it’s the uncertainty in Washington and state capitals that is perhaps the greatest cause for concern. Not-for-profits can be left with tough choices as they balance the desire for financial stability with the urgent need to serve tenants.

As the demand for affordable housing continues to grow, organizations that can effectively navigate the political landscape and bring a little creativity to funding will be best positioned to make a difference in their local communities.



## CONCLUSION

As the perspectives in this report have outlined, these are challenging times to be a not-for-profit organization. The field is being disrupted by new types of donors, new types of technology, and demands for new and diverse staffing.

Yet, our charitable organizations, the bedrock of our communities, never once talked about slowing their ambitions or commitments. The executives we interviewed understood the inestimable value of their organizations and their steadfast responsibility to find ways to grow and adapt to meet a complex set of demands.

From CohnReznick's perspective, we believe that each challenge that the not-for-profit industry faces today presents a unique opportunity to explore new ways of doing business and evolving within a changing industry. From leveraging technology to discovering and exploiting new types of donors and donation models to engaging younger generations with entrepreneurial fundraising and workplace options, not-for-profits will need to constantly find ways to change to thrive. Because that is what they must do.



# ACKNOWLEDGMENTS

Our sincere thanks go to our not-for-profit contacts who generously donated their time to be interviewed for this report. We could not have created this report without the candid perspectives and experiences shared by these executives.

# METHODOLOGY

CohnReznick partnered with an independent research firm to prepare this report. Using expertise and seniority as our criteria, we developed and vetted a list of industry contacts to be included in the research. We then emailed or called these contacts to set up 30-minute phone interviews.

- In keeping with our commitment to make these conversations as candid as possible, all interviews were anonymous.
- This “data” is anecdotal and, as such, should not be considered definitive.
- Quotes were edited for grammar, but the substance and key words of the speakers remain unchanged.

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CohnReznick has a dedicated Not-for-Profit & Education Practice that works closely with the boards, management, and financial leaders of not-for-profit and educational organizations. In addition to providing them with an array of accounting and tax services, we also help them identify workflow inefficiencies, enhance internal controls, implement new accounting standards, leverage technology and IT infrastructure, and more effectively manage capital and planned giving campaigns.

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