

Nonprofit Notes

Top Concerns for Today's NFP Organizations

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Many not-for-profit organizations today face increasing hurdles to attain successful and sustained operational growth. Based on several recent surveys of a large demographic of not-for-profit organizations, the majority of respondents indicated that their near-term organizational goal is less about continual growth and more about resilience. Recent national and international events, increased government oversight, changing donor giving patterns and an ever-expanding use of technology, all contribute to NFPs' concerns about staying fiscally and operationally viable.

Among their greatest concerns are maintaining strong executive leadership, retaining financial stability and consistently meeting ongoing demands for their services, particularly for health and human services organizations.

Past and Present

Not long-ago leadership and boards of NFPs contemplated questions such as:

- How do we grow our organization?
- How do we expand our programs?

These questions have now been superseded with:

- Do we have adequate cash reserves?
- Are we too reliant on one funder?
- What would happen If we lost our major funder?
- What operational and data security risks are emerging?
- Do we have a succession plan in place for executive positions?
- Are we using technology and artificial intelligence (AI) to improve operational efficiencies?
- Are we properly managing internal control and cybersecurity risk?
- Do we have a plan in place to sustain the level of our program services over the next five years?

Financial Viability

Financial forecasting and cash flow analysis and management are critical to the ongoing fiscal viability of an organization. This obviously includes stringent cost controls and revenue diversification to maintain cash inflows. For continued financial resilience, the questions boards should be asking include:

- Which programs generate surplus unrestricted cash?
- Which programs rely on the most internal subsidies to break even?
- Is our indirect rate sufficient to cover administrative costs?

The board's concern should focus on continued future sustainability rather than historical financial outcomes. Do they fully understand key performance indicators as well as operating margins?

Government-funded organizations will be especially challenged because of funding changes, particularly at the federal level. The uncovering of massive fraud committed by certain not-for-profit organizations has led to closer and greater government scrutiny of the types and amounts of grants awarded. Additional accountability and government oversight is already planned. Increased regulatory compliance should be top of mind for these NFPs.

Fundraising is becoming more challenging as well, as donors want more information about impacts made by the not-for-profit organization recipients. They expect their donations to be used for mission-related purposes and want to know outcomes supported by their donations. Expectations have risen while the number of donors in certain cases has decreased. Boards should be aware of their organization's largest donors to nurture existing relationships and to work on securing additional future donations. Many organizations rely heavily on major gifts, making significant donor relationship-building even more important.

Executive and Staff Retainage

Successful organizations have strong leadership and effective board oversight. Does your organization have a formal plan for executive team succession? Executive succession planning is important, but so is staff retention and preventing employee burnout. Cross training of staff is a good way to leverage existing employees to perform multiple functions. When necessary, does your organization perform executive and staff recruiting that brings the best talent to the organization? Competition for top talent is greater now than ever, so stakes are high in talent acquisition.

Use of Technology

The increasing prevalence of AI cannot be overlooked. NFPs should adapt and use it as part of their internal processes. Current AI technology can be used to automate accounting processes, provide reporting and analysis, budgeting and forecasting assistance and improved donor and grant management processes. Human oversight is still necessary with the use of AI to ensure accuracy and reliance. And it is important to remember that the myriad use of AI should be used to enhance employee productivity, not replace it.

As part of their AI adoption plan, organizations must invest in training for employees to gain the most benefit from its use. Organizations increasing AI usage should ensure they have strong cybersecurity controls and adequate cybersecurity insurance coverage against potential data breaches.

Operational Changes

Some NFPs will consider operational or structural changes for future viability. The boards of these organizations may consider mergers or collaborations with similar organizations, refinement of their program offerings, right-sizing of their operating structure, or even changes to board composition to ensure the governing body is composed of leaders best suited for the organization's mission and viability.

We Can Help

The [Not-for-Profit team](#) at PKF O'Connor Davies can assist your organization with traditional auditing and tax services, as well as advisory services such as review and assessment of internal controls, evaluation of financial systems and reporting structures, budget preparation, recommendations to strengthen financial operations, cybersecurity, compliance and strategic guidance to support future growth.

Contact Us

For additional information or supplementary services, please contact your client service team or:

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