



Nonprofit
Finance Fund®

Where Money Meets Mission

STATE OF THE NONPROFIT SECTOR 2014 SURVEY

Bank of America 



2014 survey generously supported by the
Bank of America Charitable Foundation and the Ford Foundation.

To learn more about Nonprofit Finance Fund, visit nff.org.
See our online Survey Analyzer at survey.nff.org.

Photo courtesy of NFF client, Hour Children. Visit hourchildren.org for their story.

STRETCHED TOO THIN

On the day we opened this survey, a water main burst beneath an intersection near our New York office, snarling traffic, shutting down public transit, flooding the adjacent streets, drying up taps in thousands of homes, and creating widespread frustration.¹ A critical piece of our city's infrastructure had failed, creating a domino effect felt by those even miles away. Later that day, we learned of another threat to our city's infrastructure: a Human Services organization that responded to our survey, with hundreds of employees and exclusively serving a low income community, reported just one month of cash in the bank. To make ends meet, they were in a precarious balancing act of managing loans and delaying paying their bills. On top of that, community need for their services had increased significantly, and they weren't able to keep up with it.

Nonprofits like this one make up our country's hidden infrastructure, the social safety fabric that is as crucial as our water mains, transit systems, and roads. This fabric is "built capacity"—often representing years or even decades of investment by taxpayers, foundations, and consumers. It educates us, keeps us healthy, and catches us when we are most at risk. And it has been pulled taut over the years in deference to other priorities, frayed, and on the verge of tearing.

“Turn crisis into opportunity and rely as much as possible on [funding] sources you have the most control over.”

— Education / Youth Development NPO, NH

NFF's survey chronicles the challenges facing the nonprofit sector and calls out some of the targeted investments we can start to agree on as a society — whether we represent government, philanthropists, individual donors, investors, banks or intermediaries — that can salvage the already considerable investment we have collectively made in our social infrastructure. It is infrastructure we cannot walk away from, and we believe that a coordinated intervention now will not only better prepare us for inevitable future economic crises; it can lead to a happier, healthier community for us all.

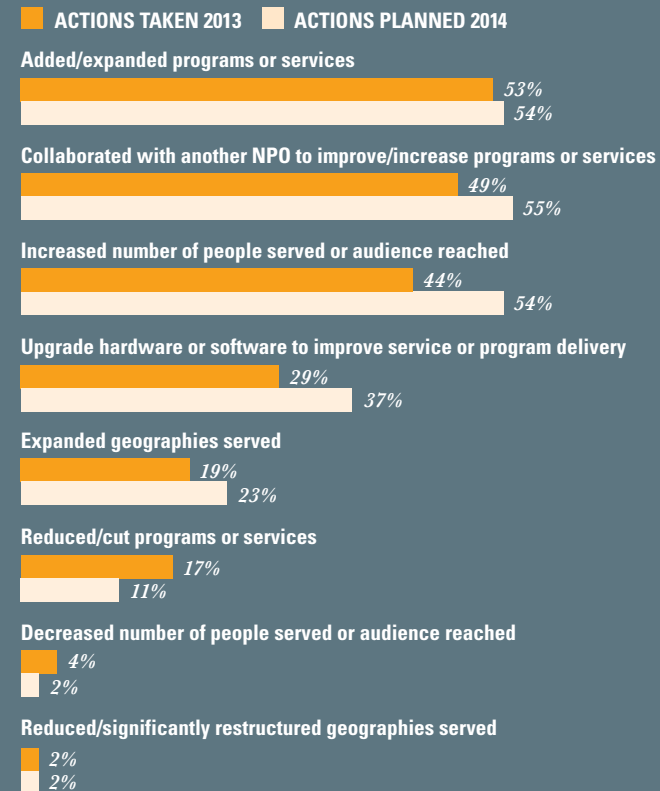
NOT WAITING FOR CHANGE

If you are familiar with our annual survey, the story will sound depressingly familiar: 5,019 nonprofit leaders responded to our survey. 80% of respondents reported an increase in demand for their services. And, to make matters worse, 56%²— the highest on record — reported that they could not meet that demand. Even many of the organizations that did not experience increases in demand were struggling to meet their community needs.

Among the factors likely contributing to this imbalance are late payments from government, inadequate reserves, the long-term impact of grants and funding that fail to cover costs, and funder conversations that are stuck on the topic of program expansion, rather than paying for what already works.

Like our roads and water pipes, nonprofits need maintenance and periodic investment, and our data shows that they are not always getting the help from supporters that they need. But they are not waiting for others to change. They are doing what they can to keep the lights on and the doors open while laying a foundation for future sustainability. And they are building momentum in ways that deserve our attention.

SERVICE-RELATED ACTIONS TAKEN/PLANNED

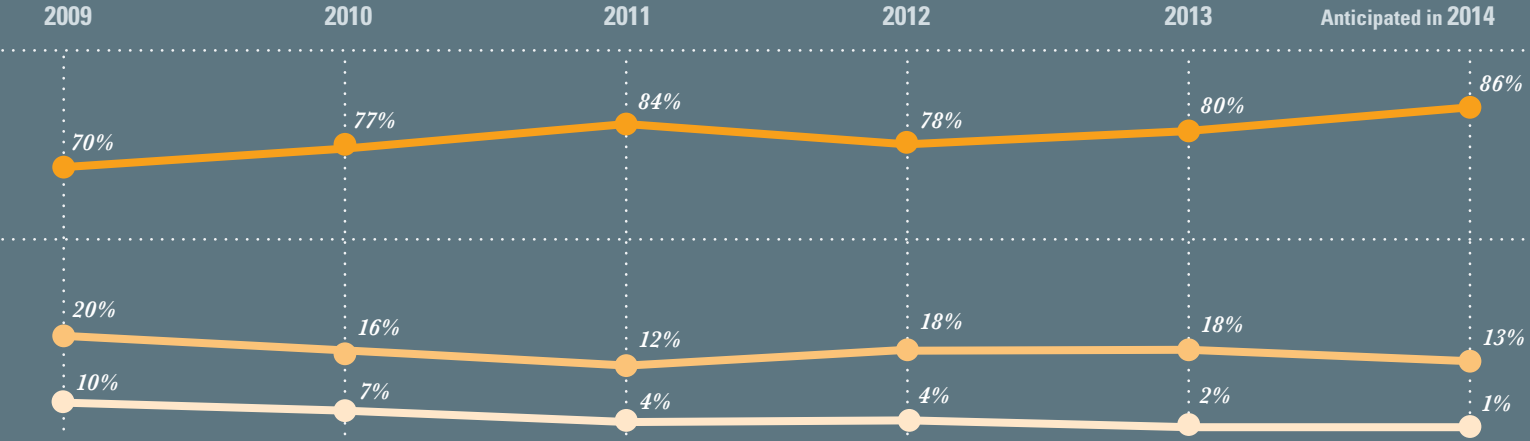


For full list of service-related actions, please visit nff.org/survey.

COMMUNITY NEED KEEPS RISING

IN COMPARISON TO PREVIOUS YEAR, RESPONDENTS REPORTED DEMAND FOR SERVICES

INCREASED STAYED THE SAME DECREASED



RESPONDENTS NOT ABLE TO MEET DEMAND



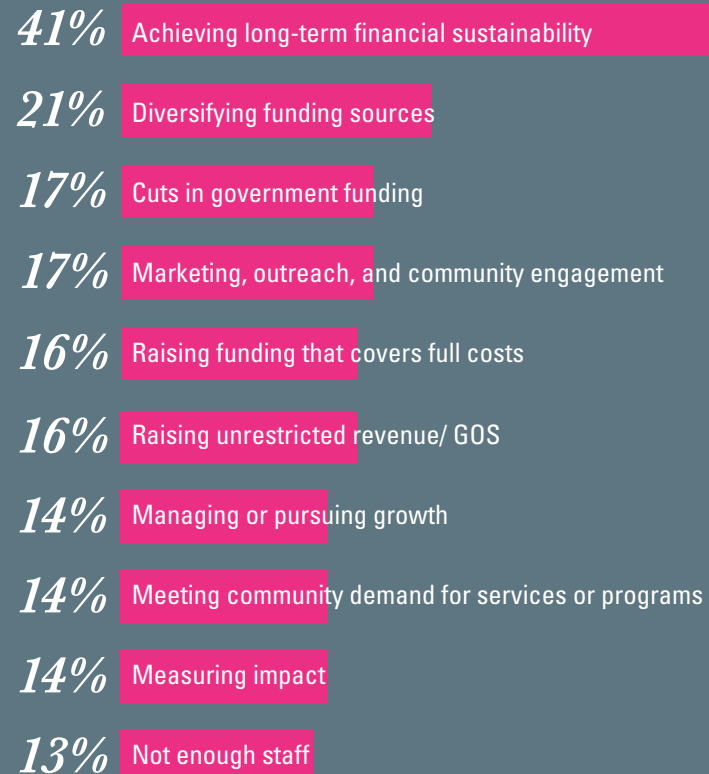
TREATING THE SYMPTOMS OF A FLAWED SYSTEM

All organizations must deal with the tension between addressing internal challenges that they can at least partially change and coping with external systemic challenges over which they have far less control. Unfortunately, nonprofits deal with dozens of systemic factors that unnecessarily cut into their efforts to maintain our social fabric. We join with other advocates in pressing for systemic change in how nonprofits are funded. But in the meantime, nonprofits have developed strategies to innovate and navigate around these external challenges. After that, it's up to supporters of the community to help them turn strategy into reality.

5 WAYS TO TREAT SYMPTOMS

- 1 CUTTING COSTS
- 2 DEVELOPING RESERVES TO MANAGE GOVERNMENT FUNDING
- 3 CHANGING THE BUSINESS MODEL
- 4 USING DEBT AS A FINANCIAL TOOL
- 5 GATHERING DATA ON WHAT WORKS

TOP CHALLENGES FACING NONPROFITS

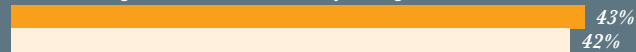


TOP TEN ITEMS SHOWN HERE. ADDITIONAL CHALLENGES NOT DISPLAYED ABOVE WERE: 12% DEVELOPING CASH RESERVES 10% HAVING REGULAR, RELIABLE CASH FLOW 7% INSUFFICIENT REVENUE 6% NOT ENOUGH SUPPORT FROM BOARD 6% ENGAGING AND MOBILIZING VOLUNTEERS 5% IT CONCERNS 5% PURSUING PROGRAM INNOVATION 4% MANAGING A FACILITY OR FIXED ASSET 4% ADAPTING TO CHANGES DUE TO THE AFFORDABLE CARE ACT 4% DELAYS IN GOVERNMENT FUNDING 3% ADAPTING TO CHANGING COMMUNITY DEMOGRAPHICS 4% OTHER

MANAGEMENT ACTIONS TAKEN/PLANNED

■ ACTIONS TAKEN 2013
 ■ ACTIONS PLANNED 2014

Advocate to government on behalf of your organization's cause



Upgrade hardware or software to improve organizational efficiency



Conduct long-term strategic or financial planning



Collaborate with another org to reduce administrative expenses



Add to reserve funds



Change the main ways in which you raise and spend money



Use outside help to improve financial knowledge or capacity



Use reserve funds



Undergo organizational restructuring



Seek funding other than grants & contracts, such as loans or other investments



Pursue an earned revenue venture



Lease a facility, or renovate a facility you lease



Purchase a facility, or renovate a facility you own



Launch a capital campaign



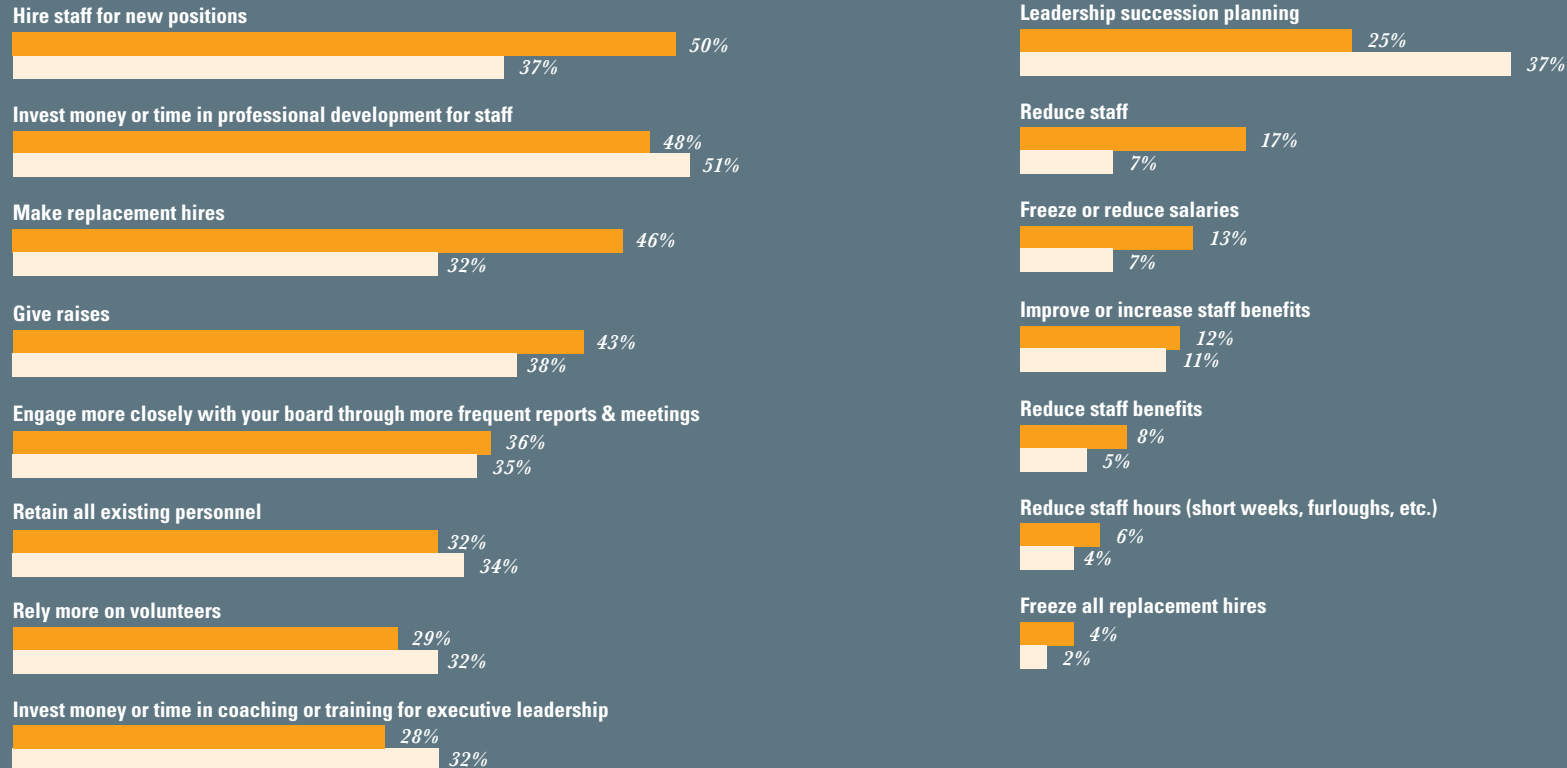
Merge with another org



Selection of responses included. For full list of results, visit nff.org/survey

STAFF-RELATED ACTIONS TAKEN/PLANNED

■ ACTIONS TAKEN 2013
 ■ ACTIONS PLANNED 2014



Selection of responses included. For full list of results, visit nff.org/survey

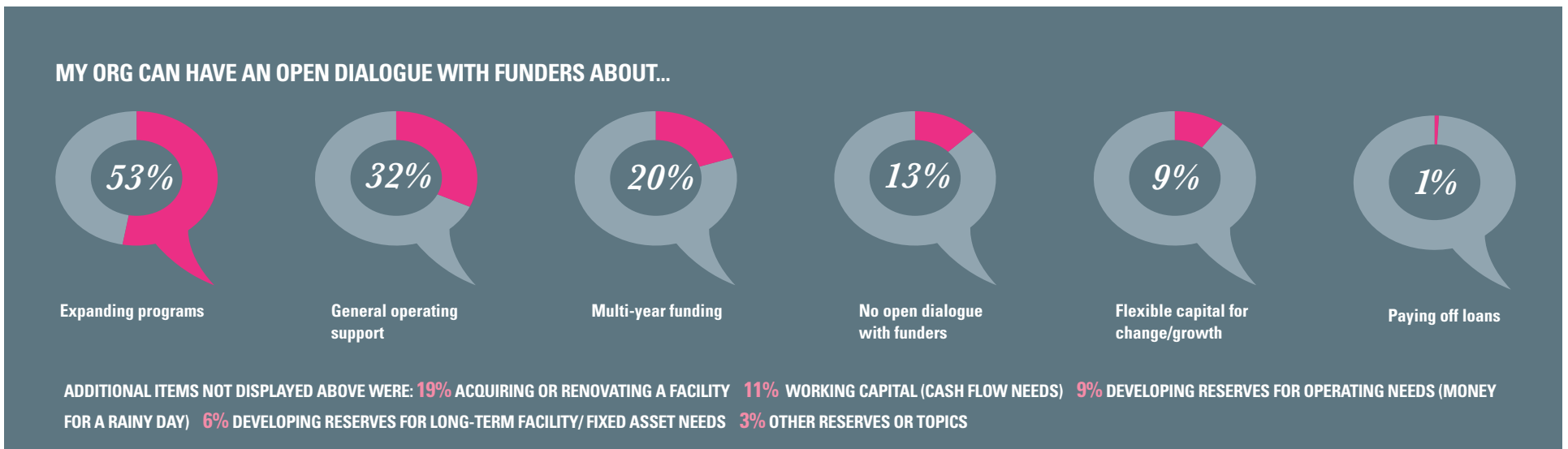
TREAT THE SYSTEM, NOT THE SYMPTOM

Our survey results clearly show that organizations are capable of continuing to serve and innovate, despite the challenges they face. They have increased the number of people they serve and risen to meet the needs of their communities as much as they can, by cutting costs, improving their efficiency, and much more. But these work-arounds have hidden consequences. Every extra dollar spent on alleviating the current symptoms is a dollar less spent on finding a cure for our flawed systems. If we want to live in a better world for everyone, then we as supporters must do the work of enabling these organizations to implement strategies and solutions that move beyond short-term fixes that patch the pipes with bubble gum. Civil infrastructure needs persistent investment in order for our future generations to be able to rely on its smooth functioning.

And yet, many of the strategies we describe remain under-funded at best and unfunded at worst. Reserves are useful to manage government delays, yet, few nonprofits feel that funders are open to discussing funding them; while debt can be a

useful financial tool, only 1% of respondents believed their funders were open to discussing it; and while understanding impact can provide a road map to long-term change, very few funders are willing to financially support organizations in their efforts to do so.

These conflicting pressures are deeply troubling to us. It is one of NFF's greatest challenges to help nonprofits make the organizational changes within their control while helping to improve the environment in which we all operate. Our survey represents one effort at using data to achieve change on both these fronts. Because unlike a water main, an organizational rupture isn't as obvious. We don't all immediately feel it when a promising student doesn't get the support she needs to make it to college, or a mother doesn't have the means to provide healthy food to her child. But it is only a matter of time before the daily injuries of a broken infrastructure affect everyone. Should we wait until that day comes or take action now?



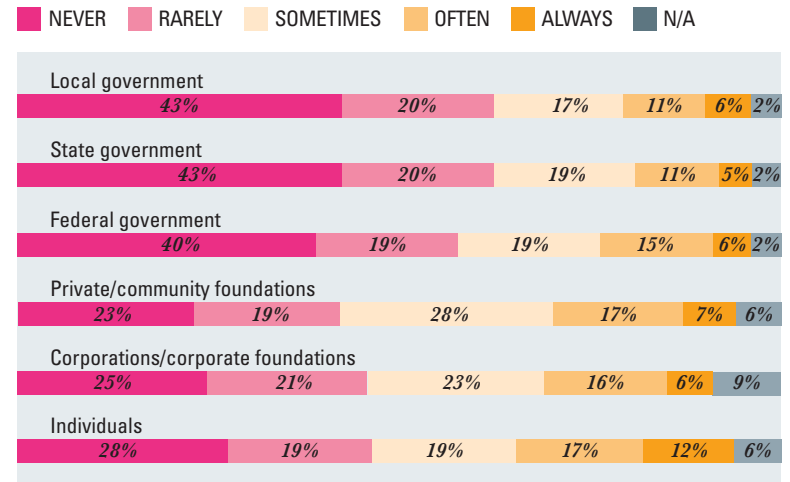
FIVE WAYS TO TREAT THE SYMPTOM

1 CUTTING COSTS

Nonprofits struggle to raise funding that truly covers the full costs of doing business. While covering costs is a systemic problem in the way nonprofits are funded, organizations have come up with innovative ways to stretch their limited funds and capacity in order to make ends meet. One strategy is to reduce the amount of time staff spend on administrative tasks that underly their programs. 40% of respondents upgraded their computer hardware or software to improve organizational efficiency, while others upgraded or improved software to improve service delivery. These kinds of investments free up staff to directly serve clients and make the best use of their core expertise in community-based work.

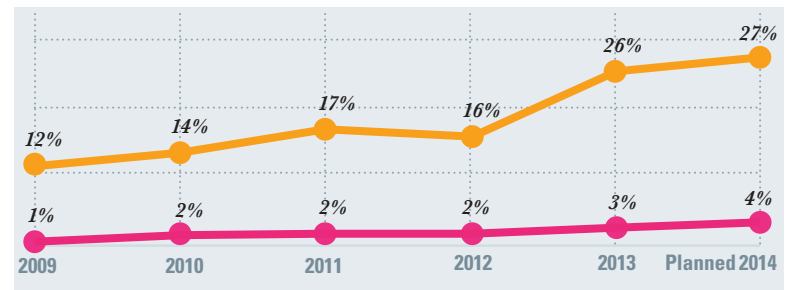
Our survey data suggests that nonprofits are increasingly collaborating to reduce administrative expenses.³ Reported merger activity, though still a small fraction of respondents, also increased compared with last year. But operational cost cuts can only go so far, and eventually, staff and infrastructure start paying the price. Constantly searching for cost-cutting strategies can also lead to unreasonable funder expectations on the true costs of service delivery.

HOW OFTEN DO FUNDERS COVER THE FULL COSTS OF PROGRAMS THEY INTEND TO SUPPORT?



COLLABORATIONS AND MERGERS

■ COLLABORATED WITH ANOTHER ORG TO REDUCE ADMINISTRATIVE EXPENSES
■ MERGED WITH ANOTHER ORGANIZATION



FIVE WAYS TO TREAT THE SYMPTOM

2 DEVELOPING RESERVES TO MANAGE GOVERNMENT FUNDING

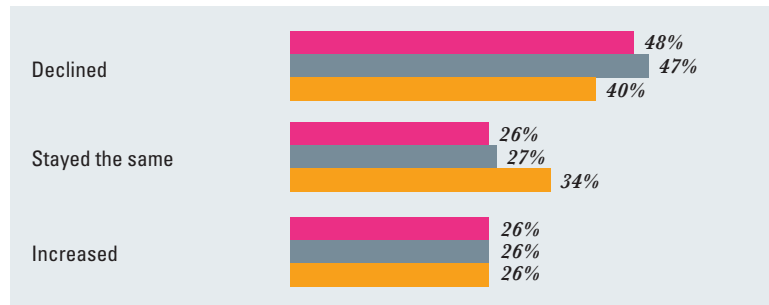
Many nonprofit organizations depend on government contracts and grants as a key source of revenue. Over 65% of respondents received some form of funding from local, state or federal government. These nonprofits struggle to cope with chronic systemic challenges including shifting contract terms, low indirect cost rates, payment delays, and burdensome reporting requirements on contracts. 27% reported spending upwards of 100 hours per month managing government contracts.

While government support is a critical component of our social fabric, these sources of funding can be destabilizing for nonprofits. As the size of the contracts grows, the amount of indirect costs not covered by those contracts often grows, too. Raising money to cover unfunded indirect costs requires time, staff, and skills that pull resources away from service delivery. On top of these chronic challenges, nearly half of respondents with State or Federal government funding reported declines in the last five years. 40% reported 5-year declines in their Local government funding, as well.

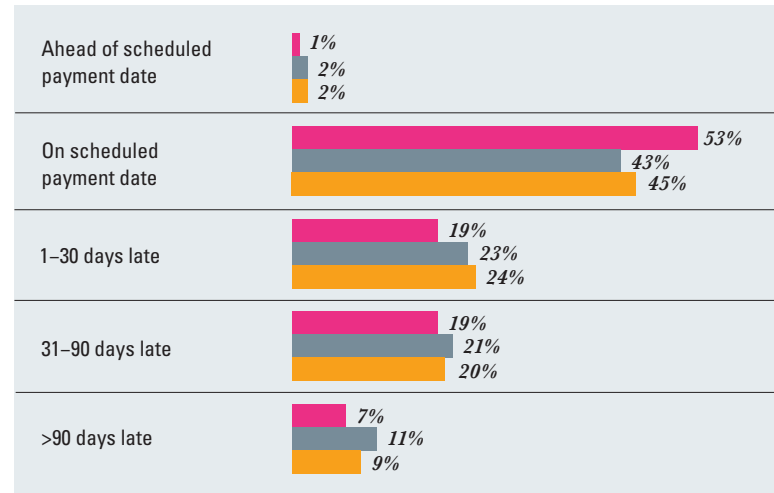
Addressing these problems is on the minds of both service providers and organizations like the National Council of Nonprofits, who continue to work on behalf of the community.⁴ But change is not happening soon enough, and meanwhile, nonprofits are implementing practical solutions to cope. For instance, regarding their management of government payment delays, one respondent said: "We have an internal working capital fund that we have built up to cover these sorts of delays and other cash flow needs." 37% of respondents said they use reserves to cover government payment delays. The organizations without reserves instead must delay payments to vendors, borrow from staff or board members, and rely on other short-term strategies.

IN THE LAST FIVE YEARS, MY NPO'S GOVERNMENT FUNDING HAS:

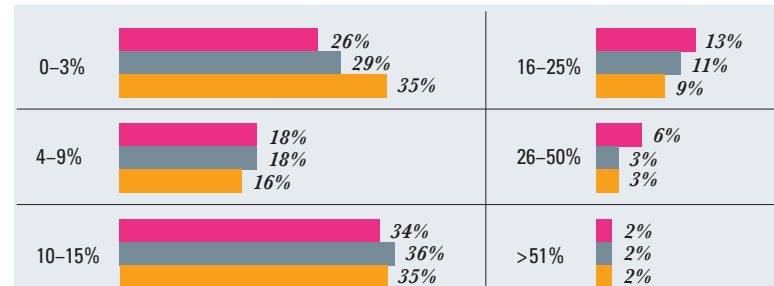
■ FEDERAL GOVERNMENT ■ STATE GOVERNMENT ■ LOCAL GOVERNMENT



WHEN DO YOU RECEIVE PAYMENT FROM THE GOVERNMENT?



AVERAGE INDIRECT COST RATE PAID BY GOVERNMENT



This graph represents the average allowable indirect cost rate (AICR) or overhead/administrative cost rate that nonprofits say the government pays when they receive a contract or grant. Every organization must budget for overhead, which includes items like facility maintenance, phones, savings, and other costs that aren't strictly tied to program delivery.

FIVE WAYS TO TREAT THE SYMPTOM

3 CHANGING THE BUSINESS MODEL

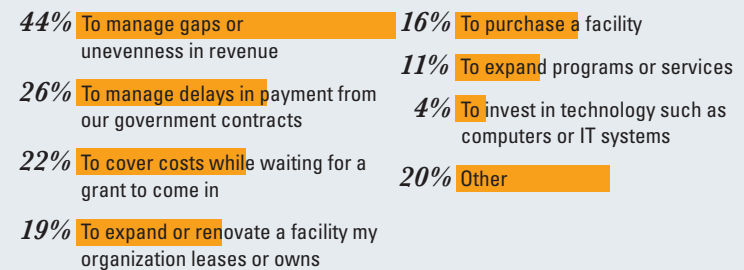
Nonprofits are living in an era when their sources of income are often very unreliable. As a result, their visibility into their future is crippled, forcing them to think and act based on the needs of their community and staff today, not five or ten years from now. Achieving long-term financial sustainability and diversifying funding sources were top challenges identified by this year's respondents.

To manage these challenges, many organizations conducted long-term planning, changed the ways they raised and spent money, explored earned revenue ventures, and sought funding other than grants or contracts. Pursuing new sources of funding can be opportunities to invest back into the organization in ways that help achieve efficiencies, such as technology upgrades and infrastructure that streamlines services.

4 USING DEBT AS A FINANCIAL TOOL

Cash reserves are not the only source for managing revenue timing issues. 47% of respondents indicated they had a loan or line of credit outstanding. Most used that borrowed money to manage gaps or unevenness in revenue or to cover costs related to delays in government contract payments.

NPOS WITH LOANS/LINES OF CREDIT USE THEM...



DEBT POLICY

Many organizations noted that one thing keeping them from seeking debt was policy at the board or organization level that explicitly forbade it. When used wisely, debt can be a useful tool in supporting growth, payment delays, and infrastructure investments.

FIVE WAYS TO TREAT THE SYMPTOM

5 GATHERING DATA ON WHAT WORKS

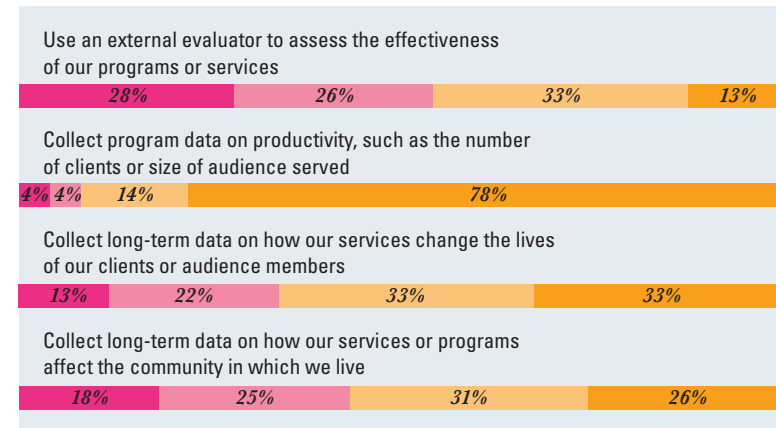
NONPROFIT EFFORTS

Organizations are increasingly gathering data on the outcomes and impact of their work. In some cases, these efforts are due to a systemic increase in performance-based funding, such as Pay For Success financing, or other types of investments that tie funding to the outcomes of those receiving services. In other cases, impact measurement efforts are the result of an increasingly competitive funding environment and a desire to resource the most effective work, where both funders and nonprofits must make difficult decisions on how and where to spend their money.

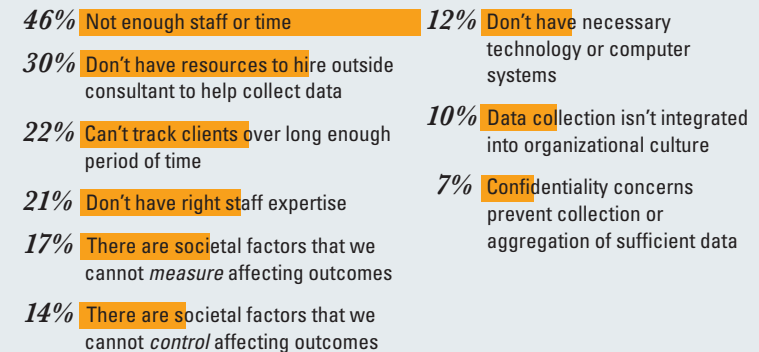
But impact measurement is easier said than done. We asked survey respondents to tell us what barriers were most insurmountable when it came to collecting data. Some of the hurdles will never be easy to overcome, such as societal factors that make both measuring and achieving impact difficult. But the bulk of respondents identified potentially solvable challenges: not enough staff, insufficient resources for hiring outside consultants, building internal staff expertise, or creating the necessary organizational culture.

HOW OFTEN DOES YOUR NPO PURSUE THE FOLLOWING PROJECTS RELATED TO MEASURING PROGRAM IMPACT?

NEVER RARELY SOMETIMES REGULARLY



WHAT ARE BARRIERS TO COLLECTING, USING OR IMPROVING HOW YOUR NPO MEASURES THE LONG-TERM IMPACT OF PROGRAMS?



Top responses included. For full list of results, visit nff.org/survey

FIVE WAYS TO TREAT THE SYMPTOM

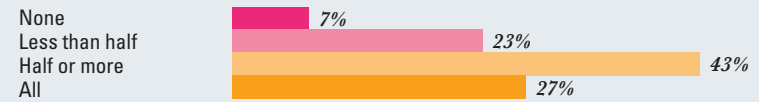
5 GATHERING DATA ON WHAT WORKS (CONTINUED)

EXPECTATION OF FUNDERS

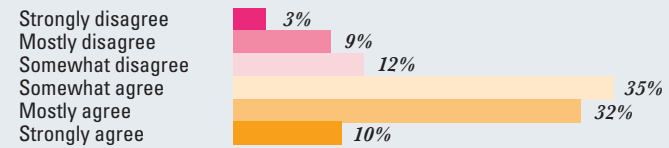
Many of the most insurmountable hurdles can be treated with strategic investments. This year, we also looked at the way that respondents were being supported in impact measurement efforts. 70% of respondents report that at least half of their funders ask for impact or program metrics in reporting. These funder requests are, for the most part, well-aligned with the organization's own needs. And yet, 71% of organizations also report that funders never or rarely cover the costs associated with the impact measurement they request. This is yet another unfunded mandate leaving organizations between a rock and a hard place.

FUNDERS AND IMPACT MEASUREMENT

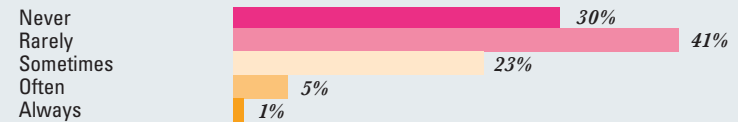
HOW MANY FUNDERS ASK YOU TO INCLUDE IMPACT METRICS IN GRANT REPORTS?



THE METRICS THAT FUNDERS ASK FOR ARE HELPFUL TO US IN ASSESSING OUR IMPACT



HOW OFTEN DO FUNDERS COVER COSTS ASSOCIATED WITH IMPACT MEASUREMENT?

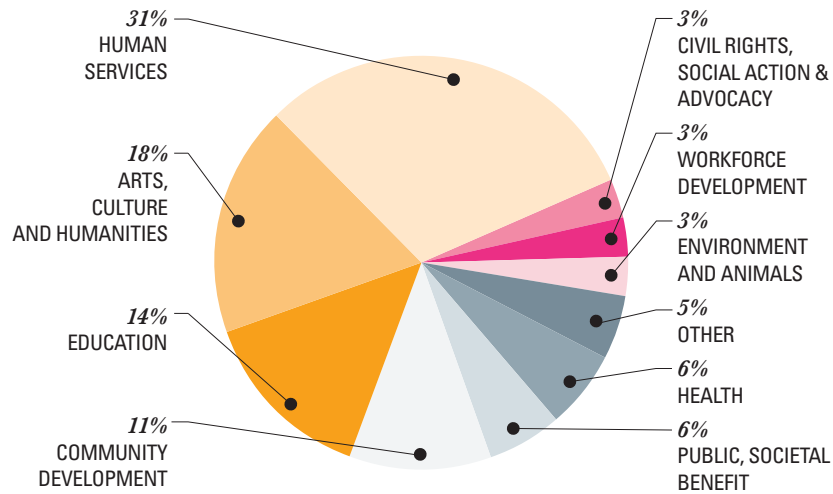


HIGHLIGHTS

PROFILE OF RESPONDENTS

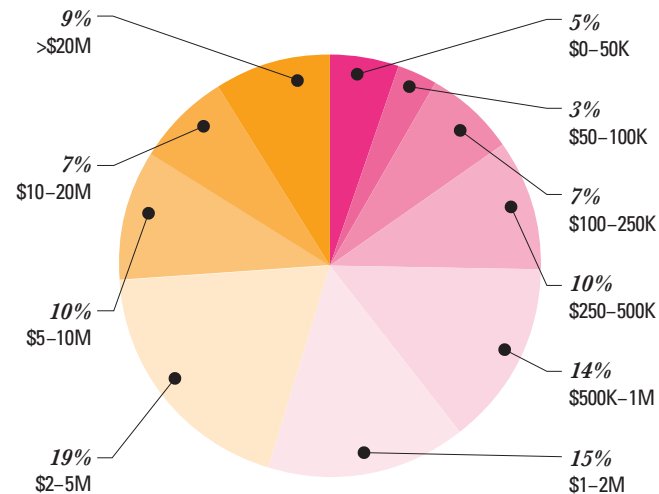
NFF's Annual Nonprofit Survey received responses from all fifty states and Puerto Rico. Respondents reflected a diversity of sizes as well, with the largest representation (19%) in the \$2-5 million range. Respondents also reported as few as zero full-time employees and as many as several thousand. For a full picture of this year's respondents, visit nff.org/survey.

RESPONDENTS BY SECTOR



"Other" includes the following categories, which each reflected 2% or less of total respondents: Mutual/Membership Benefit, International/Foreign Affairs, House of Worship, Foundations, and Unknown.

RESPONDENTS BY FY '13 OPERATING EXPENSE



HIGHLIGHTS

LOW-INCOME COMMUNITIES

70% of survey respondents either exclusively or primarily served low-income communities. These organizations were more likely to report increases in service demand and less likely to have financial surpluses in comparison to their counterparts. A much larger number of these respondents also identified affordable housing as a top community need.

RESPONDENTS WHO PRIMARILY OR EXCLUSIVELY SERVE LOW-INCOME COMMUNITIES VS. THOSE THAT DON'T

■ SERVE LOW-INCOME COMMUNITY (LIC) ■ DON'T SERVE LIC

Affordable housing identified as top community need	46%	14%
Reports of increase in service demand	85%	68%
Unable to meet demand for services	65%	37%
Ended FY '13 with operating surplus	38%	45%
Collaborated to reduce admin. expenses	28%	20%
Change the main ways in which you raise and spend money	25%	19%
Added or expanded programs	55%	48%

“We offer homeless food and housing. Our clients can pay nothing. Annual operating funds are a constant challenge. Funders always want something new... and we need operating costs. That is just a fact OR we need a for-profit or funder to help us / fund us to generate revenue so we can stop asking for operating funds. Neither option seems popular lately.”

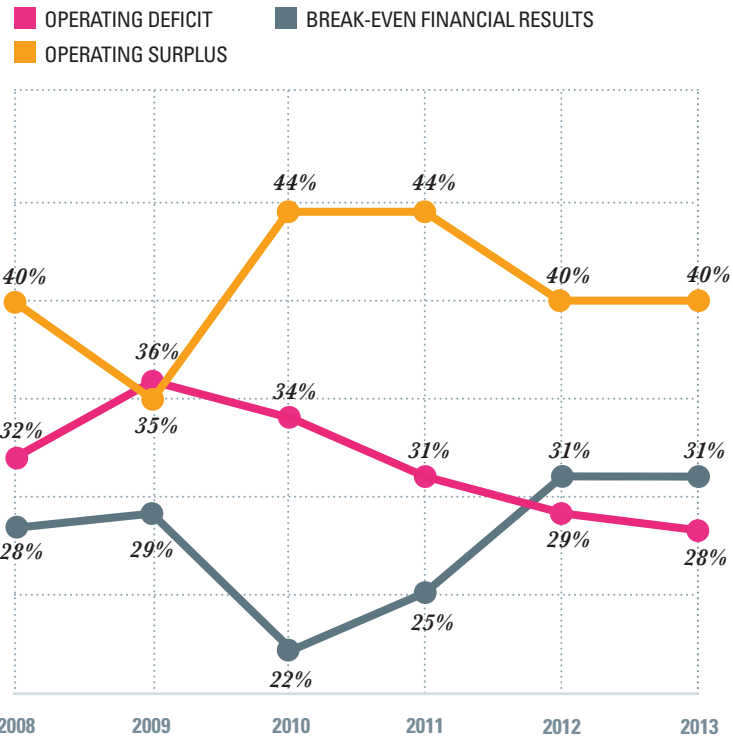
— Human Services NPO, FL

HIGHLIGHTS

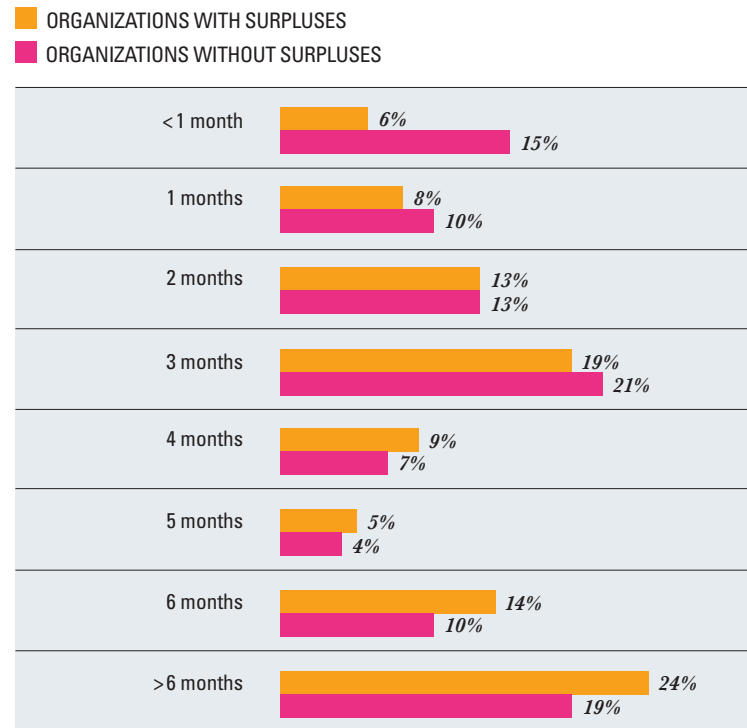
FINANCIAL HEALTH

35% of respondents had less than 3 months of cash readily available. Organizations with financial surpluses didn't necessarily have cash in the bank to pay their bills: 6% of these organizations had less than one month of cash, and 8% had only one month.

FINANCIAL RESULTS: ENDED FY '13 WITH...



MONTHS OF CASH READILY AVAILABLE



FILTER THE DATA YOURSELF WITH NFF'S ONLINE SURVEY ANALYZER

The results we've highlighted here represent only a small glimpse into the complete data set. See an interactive database of 2014 results at survey.nff.org, where you can filter results by geographic areas, sub-sectors, expenses, and more. We hope you'll share your thoughts with the community by posting your results on Facebook or Twitter. Visit nff.org/survey to learn more about the Survey and see results from previous years. For ongoing explorations of the results, visit our Social Currency blog at nff.org/blog. Questions? Email us at research@nff.org.

ABOUT NFF

Nonprofit Finance Fund® (NFF®) unlocks the potential of mission-driven organizations through tailored investments, strategic advice, and accessible insights. Since 1980, we've helped funders, nonprofits, and other organizations connect money to mission. Our services help great organizations stay in balance, so that they're able to adapt to changing financial circumstances and grown and innovate when they're ready. As a leading community development financial institution (CDFI), NFF has provided over \$287 million in loans and access to additional financing via grants, tax credits and capital in support of over \$1.4 billion in projects for thousands of organizations nationwide.

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1. Stepansky, Joseph, and Irving DeJohn. "Water Main Break near Union Square Forces Street Closures, Subway Disruptions." NY Daily News. N.p., n.d. Web.
2. All percentages are rounded to the nearest whole number. Therefore, percentages in graphs occasionally do not add up to 100%. Additionally, the majority of the questions in this survey are optional; therefore, percentages are based on varying numbers of total respondents per question.
3. These data may be unrepresentative of the sector as a whole because of NFF's broader exposure to organizations pursuing voluntary mergers and collaborations through our New England and California Catalyst Funds. Learn more about these projects at nff.org/mergers-and-collaborations.
4. "A Dozen Common Sense Solutions to Government-Nonprofit Contracting Problems." National Council on Nonprofits. 12/05/2013. <http://www.govtcontracting.org/sites/default/files/white-paper-common-sense-solutions.pdf>.