2013 State of the Sector Survey

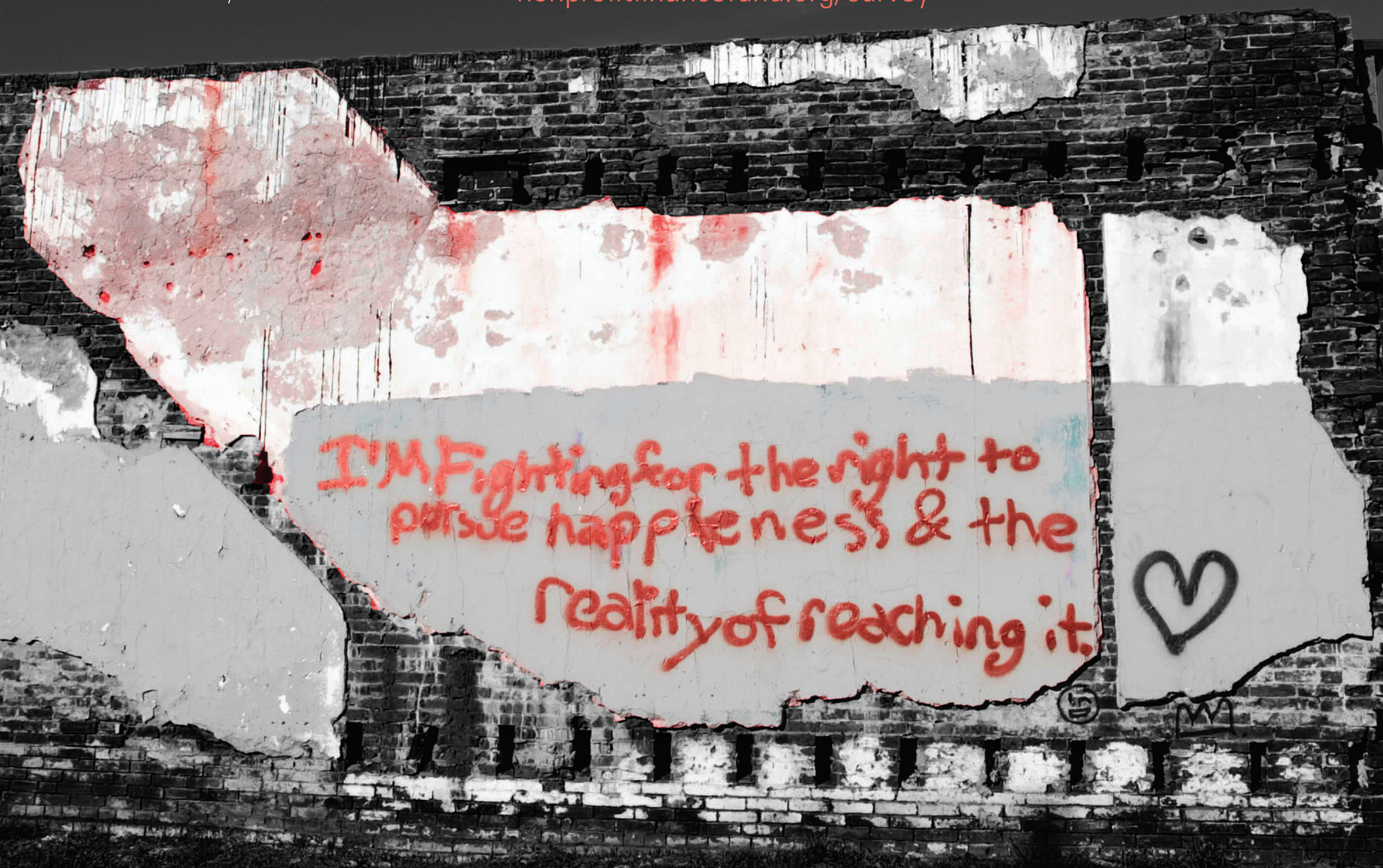
Nonprofit Finance Fund®
Where Money Meets Mission®

Since the end of the 2008 financial crisis, the US has seen faltering signs of economic recovery. But underneath these glimmers of improvement are the 46.2 million poverty-stricken Americans[1] that have seen little change. With poverty at record levels, our nonprofit safety net and the 10.7 million workers[2] who sustain it are shouldering an unprecedented responsibility and showing the strain.

Nonprofit Finance Fund's 5th annual survey captures this economic reality through the voices of 5,983 nonprofit leaders. While organizations show slight signs of financial improvement, this is also the 5th straight year in which they reported dramatic increases in service demand. Meanwhile, government support continues to decline, leading many to believe that programs for the public good are experiencing long-term disinvestment.

Under these shadows, nonprofits continue to carry out their missions, making painful decisions in order to stay afloat. At the same time, leaders are taking a hard look at how their organizations do business, recognizing that systemic change is critical to fully meet demand and achieve sustainability. They are innovating to increase efficiency, access new kinds of funding, evaluate impact, and work collectively to tackle social problems. But with fewer resources to even address critical needs, how will our sector find space and time to re-invent the way we work?

nonprofitfinancefund.org/survey



NFF's 2013 Survey is generously supported by the Bank of America Charitable Foundation

Bank of America

community need for services keeps rising...

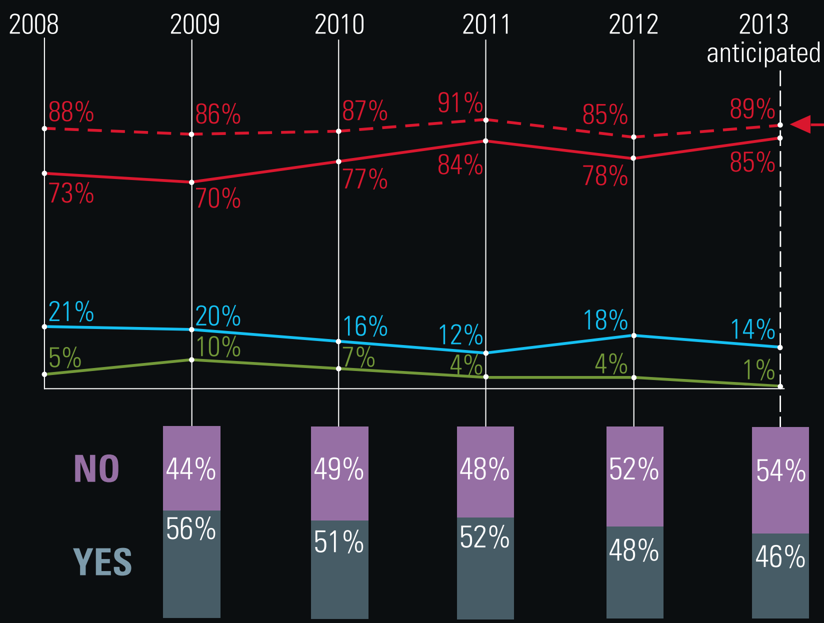
Nonprofits, unlike for-profits, aren't always able follow the laws of supply and demand. In fact, for many nonprofits—particularly health and human service organizations—supply and demand are at war: when demand for services goes up, nonprofits are expected to—and want to—increase the supply. Yet at the same time, payment often can't adjust to cover the increased costs of production: to educate more children, to shelter the growing numbers of homeless people, or to provide elder care for our aging population.

While we at NFF strongly encourage nonprofits to always balance money and mission, the reality is that coping with demand can mean turning people away. And this is incredibly difficult for nonprofits to do. Says one survey respondent: "Homelessness is on the rise and youth homelessness is increasing daily. In order to maintain the integrity of our program, we must turn students away once we reach our maximum capacity. It is a challenge daily to know that you may be leaving a teen on the street due to funding limitations."

respondents say demand for services... [3]

increased
stayed the same
decreased

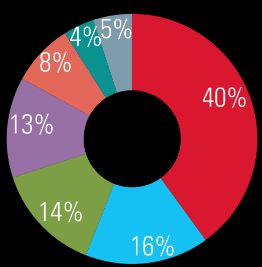
were we able to meet demand for services?



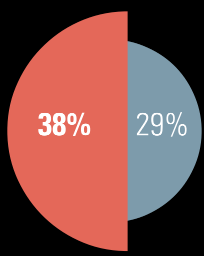
Organizations that identified as 'lifeline,' or providing critical services to their communities (52% of respondents), were more likely to see increases in community need

respondents by sector

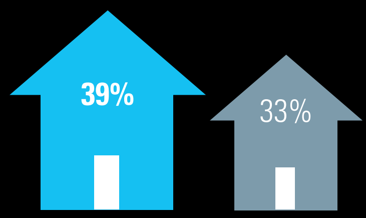
human services • arts/culture/ humanities • education • public/societal benefit • health • environment/animals • other [4]



Compared to all other sectors, the **health care** sector was more likely to upgrade technology to improve/increase services, possibly due to the creation of electronic records of patient files.



Compared to all other sectors, **arts & culture** nonprofits have more open dialogue with funders around facility needs, possibly because their buildings are more readily seen as integral to mission.



"The social safety net has been gradually chipped away for decades. Non-profits, private donors and volunteers simply cannot fill the yawning chasm between services needed and government support currently provided. We and our network of member agencies are strained beyond capacity. The neediest families continue to need more, while further cuts in government support are inevitable."

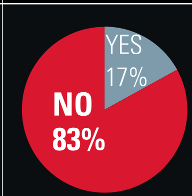
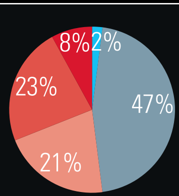
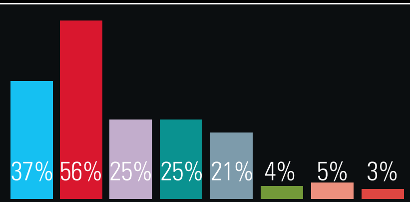
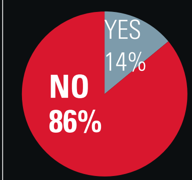
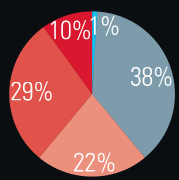
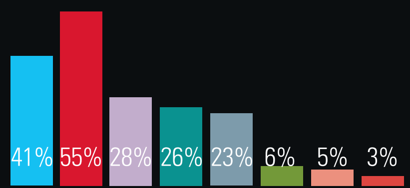
... while funding is down, delayed & doesn't pay full costs...

Our federal and state governments are responsible for protecting our communities from economic shockwaves and improving our collective quality of life. Services like unemployment benefits are often run by the government; however, many social programs are currently outsourced to nonprofits.

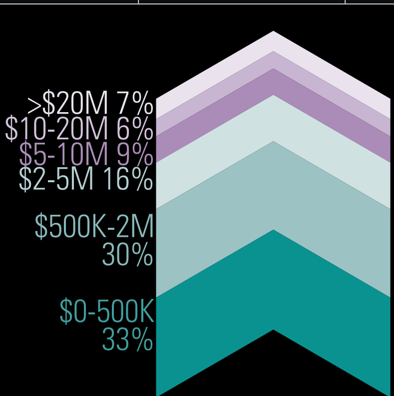
But there's a catch: when demand for services goes up and people are least able to pay, government spending for social services often goes down. Says one respondent: "Our state contract rates have been cut to a point that it is almost impossible to break even and deliver services with a reasonable level of quality while also complying with contract requirements."

Unfortunately, funding cuts come on top of pre-existing challenges with government contracting that are not easy to solve. For many nonprofits, managing government contracts is a 'program' in and of itself. Complex and redundant reporting, payments that do not cover the full cost of delivering services—a problem for around 85% of respondents with any type of government funding—and payment delays have resulted in the expansion of a secondary nonprofit support sector entirely dedicated to alleviating financial trauma for front-line organizations. These include private foundations, nonprofit investors like NFF, marketing consultants, and many others.

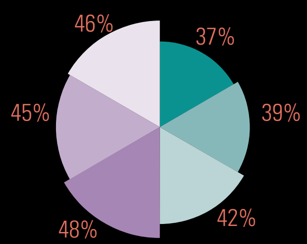
gov't. funding

	% of respondents receiving funding	does it pay the full cost of services?	when is payment received? ahead of time • on time • 1-30 days late • 31-90 days late • >90 days late	to manage the impact of delayed payments, we... anticipate & plan for the delay • use reserves • delay vendor payments • use line of credit • use funding from other funders • cut staff costs • borrow from partner/parent org • reduce services	% of respondents that advocated to government
federal gov't.	29%				66%
state/local gov't.	47%				63%

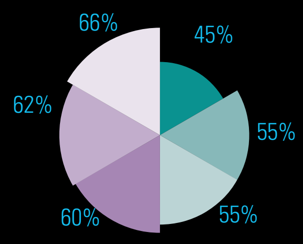
respondents by annual expense



Surplus, by annual expense size: the bigger the organization, the higher the % of respondents reporting surpluses.



Data collection, by annual expense size: the bigger the organization, the higher the % of respondents reporting that they regularly collect impact data.

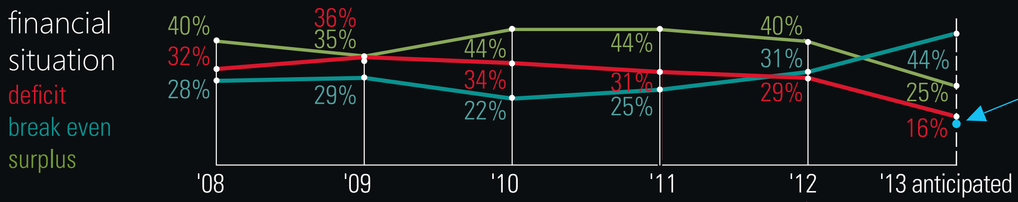


"I call it the 'resource reversal'—our biggest challenge has been the reduction in funding and other resources available to us and our clients at a time when, due to the economy, the needs are greater than before. We are looking at a variety of partnerships and collaborations, outreach and referral, and possible program expansion to respond to the challenges."

… creating chronic financial stress…

While the survey results indicate that more organizations may be breaking even in recent years, the decline in the percentage of respondents reporting surpluses tells us that our sector is not on a path towards long-term sustainability.

NFF emphasizes long-term sustainability, and sometimes people challenge our thinking. After all, some organizations do get by year after year without savings in the bank. But sudden costs or unexpected losses—like a broken boiler, delayed payments, or an economic downturn—can send these organizations into a tailspin. And chronic financial stress takes its toll over time, fundamentally changing the way organizations manage finance. For many respondents, cash flow challenges and constantly teetering on the brink of break-even create an ingrained, reactive mindset that forces them to think on incredibly short timelines: "It's a rush to open the mail every day to get payments to the bank," says one survey respondent.



15% couldn't predict 2013 financials; they tended to be small organizations, with 50% having budgets under $500k.

12% of those with deficits in 2012 nonetheless said they felt financially stable that year.

how did amounts of cash affect actions?

were able to meet demand for services	39%	44%	53%
added/expanded programs	48%	55%	55%
reduced/cut programs	25%	20%	15%
had 2012 deficits	39%	26%	25%
sought funding other than grants/contracts	27%	21%	17%
upgraded technology to improve efficiency	37%	44%	45%

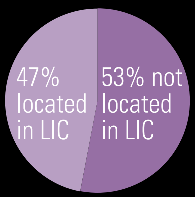
Cash doesn't always affect how nonprofits behave when it comes to programs: across categories, responses were similar for adding programs and increasing the number of people served.

Also, having cash doesn't necessarily mean that it's available for use. Calculating months of liquid net assets is a good measure for what's actually available to pay the bills:

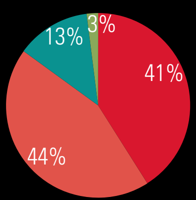
$$\frac{\text{unrestricted net assets} - \left(\text{property \& equipment} - \text{p\&e debt}\right)}{\text{total expense}/12}$$

organizations serving low income communities

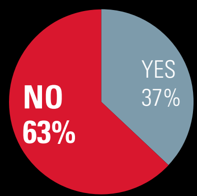
61% of respondents primarily served low income communities (LICs). Of these organizations, the slight majority were not actually located within LICs.



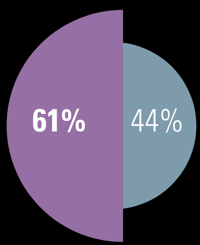
Demand for services is intense for those primarily serving LICs. significantly increased • slightly increased • stayed the same • decreased



Were these respondents able to meet demand for services? The majority say no.



Those serving LICs were more often asked to measure impact by funders, compared to those not serving LICs.



"Our greatest challenge is financial stability and sustainability. We must be more effective to raise 50% more money than we did two years ago—with the same number of staff members, but using all the skills and talents each staff member brings to the table to maximize our efforts. Our budget is to the bone, and our staff is overstretched….We…must learn how to work proactively and strategically… and stop playing catch up, as we have for most of our existence."

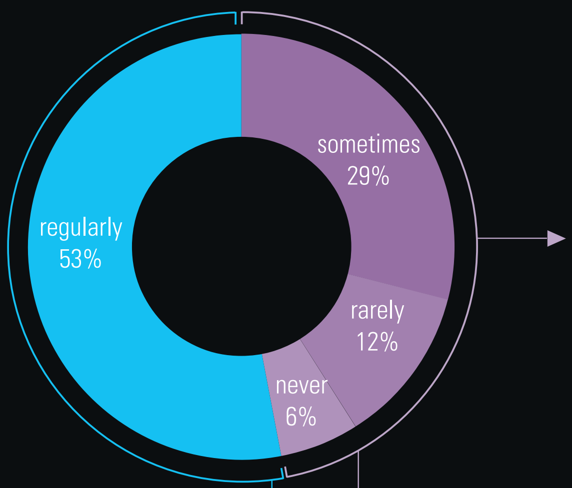
... and limiting the ability to achieve and prove social impact.

But there's a deeper implication to reactive financial thinking, beyond the stress for employees and the constant threat of closure. Short-term decision-making in finance is mirrored in mission: nonprofits are forced to address immediate suffering—providing a bed for the night or a meal for a hungry child— instead of putting resources towards long-term or preventive solutions such as ending hunger or tackling the root causes of homelessness. If it's a question of choosing between funding data collection on long-term impact and feeding a hungry child, the choice may seem simple. But how do we make room for both so that we truly understand what works?

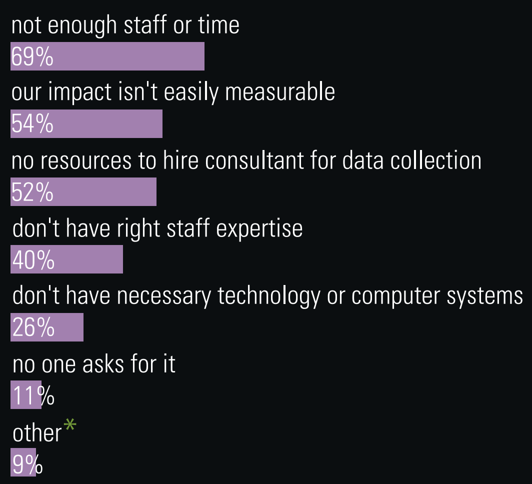
With less funding to go around, nonprofits are being asked, now more than ever, to prove their impact and do more with less. The burden to serve more people with less funding while spending more resources on impact analysis falls the hardest on organizations doing some of the most pressing social work, particularly those with government contracts and serving low-income communities. All the while, funding for the collection and analysis of data is noticeably absent.

Business as usual is not working. So what does it take for us to change?

how often does your organization collect impact data?



what prevents you from regularly collecting impact data?



what do npos that regularly collect impact data look like vs. those that don't?

	regularly	don't
many of them identified as 'lifeline'	58%	44%
most are asked by funders to collect data	71%	36%
many advocated to government	51%	43%
more collaborated to improve/increase services	47%	38%

what are other challenges to collecting impact data?

* Discontinuity: Nonprofits can't control how long clients stay in their programs, and it's even more difficult to stay in touch with them once they've left.

Complexity: There are countless factors, beyond a single organization's influence, that affect a client's outcomes.

Confidentiality: Organizations have to be very careful about how they collect, store, and share personal client information, even if it's aggregated.

Culture: Collecting and using data takes buy-in from staff at all levels of an organization.

"I think the greatest challenge our organization is facing is truly creating impact in a specific area in a community... we realize that in fulfilling the need for affordable housing for low-income families by providing housing, there are many other issues needed to break cycles of poverty and create true transformation in a neighborhood... While our organization cannot be the sole provider of these things, we are challenged to work towards connecting with other entities in our community to see this change."

nonprofits are approaching growth with caution...

What are organizations doing to stay in business? Trends over the last few years have shown a decline in the number of organizations taking actions to either grow or shrink, with more appearing to simply tread water. For instance, smaller percentages of respondents cut programs in 2012. However, reports of program expansion also declined. Similarly, while the percent of respondents that used reserves declined in 2012, so did the percent of organizations that added to reserves. Maintaining the status quo sounds deceptively simple; for nonprofits, it is not so easy.

At the core, nonprofits are coping with two familiar competing factors: demand for services—and the strong desire to fill that mission need—versus funding challenges. This story is partly familiar and partly exacerbated by a trend of government disinvestment in the social sector. But innovation most often happens under constraints. Just as the problem is both familiar and new, so are the solutions sampled here:

how do we cope with demand for services?

growing programs wisely

"The greatest challenge facing our organization is balancing expanding services with adequate staffing, technological resources and unrestricted funding—in other words: finding balanced growth."

Nearly half of organizations reported program expansion in 2013. But acquiring the right human and financial capital to achieve growth is difficult. For example, nonprofits often struggle to add the right number and type of staff to support expansion. Fundraising projections also don't always meet hopes or expectations. We recommend that nonprofits have a clear, realistic plan for how they will achieve long-term sustainability before embarking on expansion. Also, as organizations grow, it's equally important to direct efforts to the highest-potential activities and "know what we should NOT do," as one respondent remarks. Strategic planning improves the likelihood of focused growth.

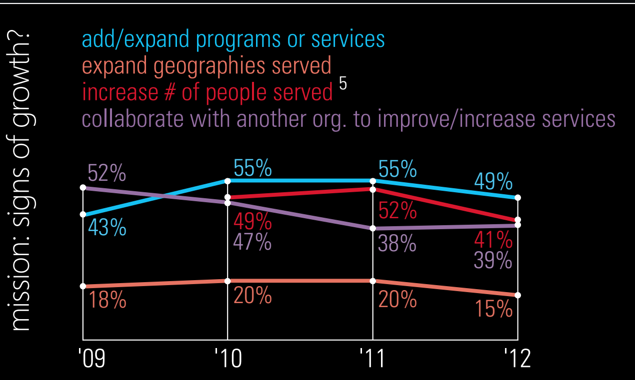
replicating effective programs and collaborating

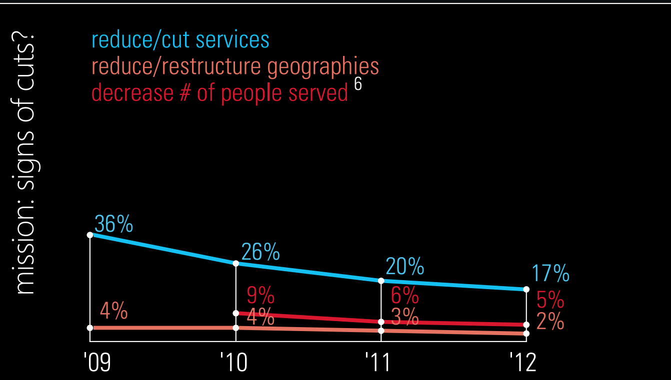
"Our biggest challenge currently is how to make this a more widely copied program. We are highly successful in generating college graduates from low income populations and it is a tested recipe for success for the broader community…"

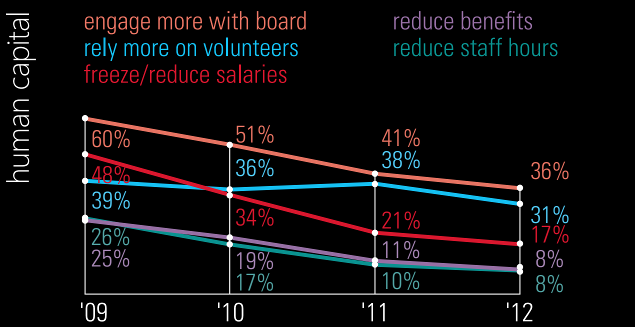
When should we do something ourselves, and when should we train—or learn from—others? Replicating what has been proven to work can be an efficient way to expand social impact. Many organizations also see the value of collaboration. Says one respondent: "The greatest challenge is making sure that our organization is collaborating with other organizations to make sure we are not re-inventing the wheel." Successful collaborations and mergers take bold leadership, thorough communication, and technical expertise. To read a case study of a successful merger, visit nonprofitfinancefund.org/BostonMerger.

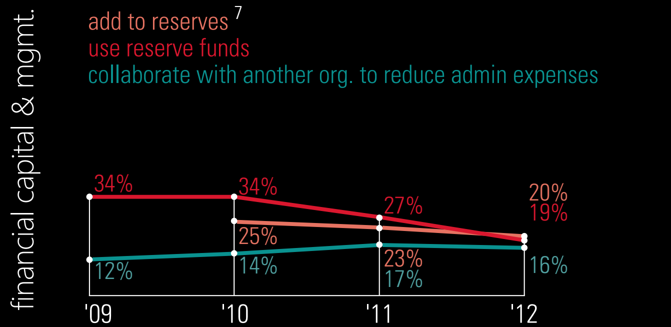
focusing on prevention

"More than 15% of [our county's] population currently lives in poverty. Our community cannot afford even one more homeless family; it is more proactive and cost-effective to focus on prevention than to deal with the trauma and social consequences once a family becomes homeless. The cost of homelessness for one person can exceed $37,000 per year with ER visits, public assistance programs, law enforcement and more... Comparatively, the preventative









services provided through our agency cost far less; on average, $400 resolves a family's rent and/or utility crisis."

Innovators around the world are developing cost-effective solutions that can deliver better social outcomes. Pay for Success (PFS) financing has emerged as one such strategy. In the basic PFS contract, private investors provide capital to build programs that primarily focus on prevention or early intervention and can prove impact. If the program succeeds, the government pays the investors back with interest, funded from the savings realized by paying for prevention rather than (often more costly) later interventions. Says one respondent: "We face potential threats to our Medicaid funding as well as to state service contracts (including Medicaid payments managed by the state). We are seeking to broaden and diversify our public support by participation in new funding strategies including Social Impact Bonds/Pay for Success Contracts, Money Follows the Person, and the Massachusetts newly developing Integrated Care Organizations…" To learn more about PFS, visit payforsucess.org.

how do we cope with funding challenges?

seeking new and different kinds of revenue

"The greatest challenge is diversification of our revenue streams so that we have more individual, corporate and foundation donors versus mostly government contracts."

With declines in government funding, many organizations that have historically relied on this source are looking to strengthen their fundraising skills in the search for donations and grants from individuals and foundations. Other organizations run earned revenue ventures, such as thrift shops, to supplement their mission-based activities. However, developing the new infrastructure and staffing to tap into these new sources of income is difficult. Many organizations are tackling this by turning to their boards. Says one respondent: "Our greatest challenge is building a strong Board of Directors that is willing to fundraise for the organization. We are overcoming this challenge by rolling long-term members off of the Board and rebuilding from a small group. Anyone who joins the Board now has clearly defined roles and willingly makes a personal donation in addition to actively fundraising."

advocating for government spending

"State reductions in funding and reimbursement levels for Medicaid services for individuals with disabilities have had a negative effect on both individuals receiving those services, and on non-profits attempting to provide the services. We have responded... by participating in various coalitions to define the problems, make recommendations, and work with policy makers - state agency employees, legislators, and the executive branch."

Although developing new revenue streams is critical when revenue becomes unreliable, we are among the many who believe that the government has an obligation to spend on social programs, and that those of us in the social sector must stand up for those in need. 43% advocated to the government on their organization's behalf in 2012. 16%, or 561 organizations, that did not advocate in 2012 were planning to in 2013. To learn more about government policy, visit the Center on Budget and Policy Priorities at cbpp.org. For advocacy tips, visit the National Council of Nonprofits at bit.ly/npoadvocacy.

actions taken in 2012 & planned in 2013

Many of the nonprofits in our survey seem to have exhausted conventional funding sources. 39% of them plan to change the main ways they raise and spend money, and 23% will seek funding like loans and other investments this year, a departure from the usual grants and contracts.

Impact Investing is a source of capital that is rapidly moving from the exotic fringes of the social sector to the mainstream. It is particularly suited to organizations that have already invested in gathering data about their impact and can demonstrate that their programs work.

mission	add/expand programs or services	49%	54%
	reduce/eliminate programs or services	17%	12%
	increase # of people served	41%	56%
	decrease # of people served	5%	3%
	increase amount of service per client	13%	20%
	decrease amount of service per client	3%	2%
	expand geographies served	15%	23%
	reduce/significantly restructure geographies served	2%	2%
	collaborate with another org. to improve/grow services	39%	50%
	upgrade tech. to increase services/improve efficiency	30%	41%

financial/social capital	upgrade technology to improve efficiency	39%	46%
	change main ways in which you raise / spend money	24%	39%
	add to reserve funds	20%	35%
	use reserve funds	19%	16%
	seek funding other than grants & contracts (i.e., loans or other investments)	19%	23%
	collaborate with another org. to reduce admin. expenses	16%	21%
	merge with another organization	2%	4%
	attend conferences/network to build relationships	55%	58%

human capital	hire staff for new positions	45%	35%
	reduce staff	19%	8%
	reduce staff hours (short weeks, furloughs, etc.)	8%	5%
	retain existing personnel	34%	41%
	make replacement hires	43%	33%
	freeze replacement hires	5%	3%
	give raises	37%	35%
	freeze/reduce salaries	17%	11%
	improve/increase staff benefits	10%	11%
	reduce staff benefits	8%	6%
	engage more closely with board	36%	39%
	rely more on volunteers	31%	37%

... and partnering for solutions.

improving the government contracting process

"We are funded by the State of Illinois... We cannot get our funds paid without 6 months' delay from the state. Then you have to use a lobbyist to even get the state to pay out on its debts. We have to demonstrate to the state that we have exhausted all reserves, completely maxed out on a line of credit, and show that we cannot make the next payroll before Illinois will even pay us the money owed to us."

Navigating the complexities of government contracts, including reporting requirements, payment delays, and redundant systems, is a challenge for both nonprofits and government officials. Many investors, including NFF, provide working capital loans and lines of credit to help nonprofits bridge payment delays. Additionally, several states have organized initiatives to streamline the contracting process. One example is New York's HHS Accelerator program, which aims to streamline both reporting and data collection. Learn about other efforts nationwide at the National Council of Nonprofits' website, govtcontracting.org.

what can supporters do?

With the unrelenting challenges nonprofits and their clients face, 'business as usual' isn't going to be enough to effectively address social problems. Nonprofits' supporters—Boards, government, private funders of all types—can be most helpful if they come together to support business model adaptation at both the organizational and systems level. Despite the compelling pull of short-term program needs, those who care about the nonprofit sector and its work must support both the planning and the resultant new paths—with funding, expertise, and encouragement.

thank you

Our 5th annual survey was our largest yet. We are grateful to all of the participants, who spent an average of fifteen minutes sharing their stories. We couldn't have conducted the survey without the help of our friends, colleagues, and partners, and deeply thank the many who helped spread the word. We especially want to thank the Bank of America Charitable Foundation, National Council of Nonprofits, and GuideStar for their distribution help—it was invaluable!

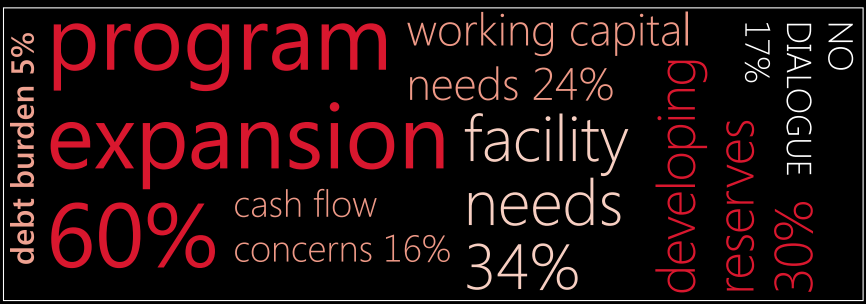
learn more at nonprofitfinancefund.org

NFF works nationwide to unlock the potential of mission-driven organizations through tailored investment, strategic advice, and transformative ideas. Since 1980, we've helped funders, nonprofits and other organizations connect money to mission effectively. Our services help great organizations stay in balance, so that they're able to successfully adapt to changing financial circumstances and grow and innovate when they're ready.

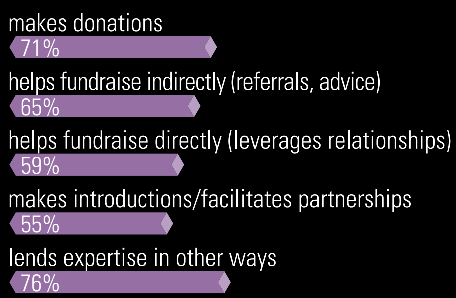
endnotes

1. Associated Press. "U.S. Poverty: Census Finds 46.2 Million Impoverished As Median Income Drops." HuffingtonPost.com, 12 Sep. 2012. Web.12 Mar. 2013. <http://www.huffingtonpost.com/2012/09/12/us-poverty-census_n_1877197.html>
2. GrantSpace. "How many people are employed in the nonprofit sector?" Knowledge Base. The Foundation Center, n.d. Web. 15 Mar 2013. <http://www.grantspace.org/Tools/Knowledge-Base/Funding-Research/Statistics/Number-of-people-employed-in-the-nonprofit-sector>.
3. All percentages are rounded to the nearest whole number. Therefore, percentages in graphs occasionally do not always add up to exactly 100%.
4. "Other" includes Mutual/Membership Benefit (1%), International, Foreign Affairs (1%), Houses of Worship (1%), and Unknown (2%).
5. The survey did not ask about changes in the number of people served in 2009.
6. The survey did not ask about changes in the number of people served in 2009.
7. The survey did not ask respondents about their contributions to reserves in 2009.

our nonprofit can have open dialogue with funder about...



our nonprofit's board...



filter the data yourself online!

We've created an interactive database of 2013 results at survey.nonprofitfinancefund.org. There, you can filter results yourself 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 nonprofitfinancefund.org/survey to learn more about the 2013 State of the Sector Survey and to see results from previous years. For ongoing explorations of the results, visit our Social Currency blog at nonprofitfinancefund.org/blog. Questions? Email us at research@nffusa.org.