



Nonprofit  
Finance Fund®

Where Money Meets Mission®

## 2011 State of the Sector Survey

Nonprofit Finance Fund's (NFF) third annual survey drew responses from nonprofits in almost every state, from small community arts organizations, to multi-million dollar health centers, to burgeoning charter schools. What did we learn? While the country has officially climbed out of the recession, recovery is slower for the nonprofit sector. Particularly for organizations providing critical services, it's getting harder and harder to keep up with the steadily rising demand.

NFF's Sector Survey is creating a repository of nonprofit data that can shed light on financial trends in our sector. By better using and sharing data, we believe that nonprofits, with assistance from key stakeholders, can become more resilient in uncertain times and draw on the successful strategies used by their peers.

We asked nonprofits what they were most proud of about their management in 2010. To the right is a sample of what they had to say. Learn more at [nonprofitfinancefund.org/survey](http://nonprofitfinancefund.org/survey).

NFF's 2011 Survey is generously supported by  
Bank of America Charitable Foundation



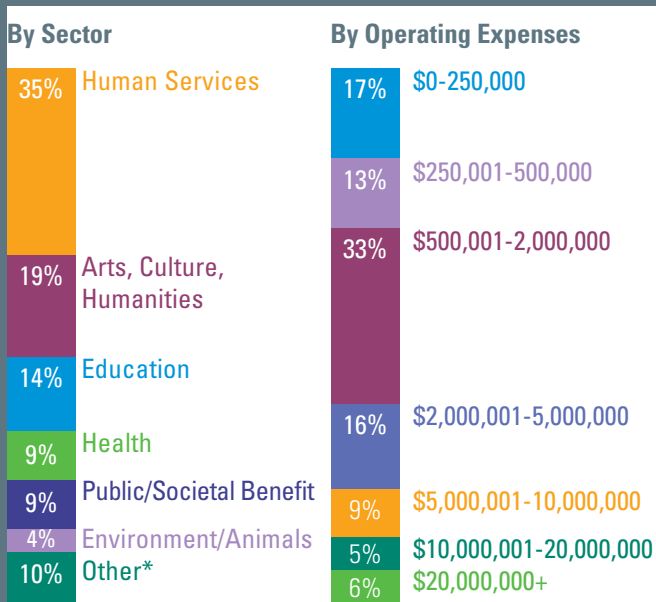
Board, Staff and Volunteers pulled together in anticipation of a negative economic impact and the result was actually improve our financial situation. And we did it by not cutting services, but to actually improve upon programs and services. We have implemented a new system to more carefully track expenditures so we can make more informed decisions for program budgets. We restructured afterschool program offerings to make them more affordable to cash strapped school districts. In 2010 we were able to add a substantial amount (for us) to our cash reserves. It was a result of several years of increased grants from smaller foundations, increased community fundraising, improving the efficiency of our thrift shop operations and better procurement policies related to services we consume. Provided we can continue this approach, program services should be far more sustainable in the future. We are most proud of taking swift action once we projected a revenue downturn. We made significant expense cuts to limit the impact on our reserve funds. We are now positioned to capitalize on improving conditions and replenish reserves. Leadership members have actively worked on reducing unnecessary expenditures, finding ways of reducing routine expenditures and have been personally charged with conceiving ways of bringing in funding to offset the diminishment of past routine funding venues. In spite of the difficult economic climate, we have been able to maintain a high level of service to our residents. We have raised the awareness on the board level for the need for proactive fundraising. We began with a \$2.3m debt to the bank and an operating deficit of \$130k. Our debt to the bank has been retired completely through the sale of real estate. We have downsized into one building renovated to suit pro bono by the building trade unions. We have reduced staff and reconfigured programming without interrupting service. We are still here! One nonprofit working in our area (arts) went out of business, and we took up some of the slack. The public was so appreciative and wanted our services so badly that they contributed far in excess of the amount we needed to pay for the services we were able to provide. LESSON:

The arts are not a luxury. The public considers them a necessity for survival. We have been very fortunate that our donors are coming through for us and we have been able to apply for and receive a couple grants. It all helps! We survived almost 4 months without our major income source from the [local government] by laying off 2/3 of the staff and operating on minimal expenses. Our laid off staff put in over 1000 hours of volunteer time during that period. All of the staff except 8 teachers were laid off, the exec. director worked without pay for the entire time and took a... second mortgage on her home to keep us from going under. It was a terrible situation, 4 bridge funding resources, 11 banks and 3 law firms and numerous foundations were contacted for help. No one would help. Partnered with other organizations who seek to serve same clients we are serving so we can combine publicity efforts. They also provide logistical support for clinics and at least one partner pays most transportation expenses. We had created a long term strategic plan before the economic downturn and were more prepared when things went really bad. We had a reserve and we were able to expand our services during a time when the services were most needed. We reduced expenses and were able to end the FY in the black despite a very difficult fundraising year. We "turned the corner" in terms of engaging our board in fundraising - they see they MUST be actively engaged with fund development along with staff and are taking actions. We reached the 95% mark in our \$6.55 million capital campaign and expanded operations. We feel truly fortunate to have done so in this environment. Had substantial reserves in anticipation of a recession how bad the recession was, but had pre-planned by building reserves), business plan to develop new financial and operational structures to declining government funding that will most likely be permanent, more collaborative, partnering relationships that will bring benefits in the future in terms of shared revenues... We have served and helped 100s of homeless families get back up on their feet, provided a quality caring service to 1000s of people. We have gone from just providing a handout to holding people accountable and giving them the tools they need to succeed. We are placing more emphasis on program evaluation. In 2010, we spent time examining how we deliver services and whether our students/programs objectives. From this evaluation process, we have decided to decrease students served in order to increase the amount of services provided to We strongly believe that this will help our students to better meet objectives and our organization to better serve our mission. Most proud of the way the staff has come together, made huge sacrifices, increased their workload so as not to compromise our program offerings - all the while, reducing expenses while increasing revenues. Most proud of the staff's "We Can Do It" attitude. In addition to the budget amendments, the organization became debt-free. As the Executive

Director for eighteen years, I knew our budget/cash flow so well that making decisions about how to get through this economic landscape was easy for me to do. What was stressful was not knowing exactly how it would all come out at the end of the year. Most of our private funding comes in the last quarter. So I positioned the Board to agree to funds if needed--and we did not need them. We also own our building/land and it is for had to we could borrow against it. That would not be our choice. The fact that I am doing for now more than two years makes my life exhausting--but it also got us through in the black. We really focused on keeping our expenses low and fully utilized our staff and volunteer talents. We added more to our existing program to help our moms find gainful employment, continue their education or attend trade school. We helped to make our residents more desirable in the work environment. We were able to keep personnel moves and budget issues from affecting services to clients. We were very proactive in reducing staff and overall expenses as well as defining what are our core service offerings. This helped when we lost 85% of our funding in October 2010. There is uncertainty how we will make it through this fiscal year, however, at least a number of decisions were made prior to the crisis. Our Board determined in Spring of 2010 that we had three failing divisions. They have met bi-weekly in subcommittees to consider various scenarios. We have two that appear to be in a good place and one more to consider. In the meantime, two more are in need of remediation. Tapping into an array of funding sources so that we are not overly reliant on any single source. Through careful portfolio management we have been able to decrease risk and loss more than most of our peer arts organizations. We have increased our volunteer workers with interns from a local university, providing the students with real world varied experience and the organization with much needed people power and fresh ideas. We bent our knees by reducing deeply and early. In January of 2010, we prepared for a slow fourth quarter of giving (FY Jan-Dec). We used the situation to reduce administrative overhead to 18%, transition out of a bad office lease, reduce staff expenses by employing service partners and strengthened our funder relations. We invested in exceptional financial management. As a result cash flow is better and we have not required use of reserve funds or lines of credit. We have been able to withstand over \$30,000 cuts in government

1935 nonprofits responded of smaller individuals and  
87% feel the recession isn't over expenses. We  
77% saw an increase in demand for services challenging (surprised) restructured adjust to establishing  
28% have 1 month or less of cash were reaching the number of each student.  
55% added or expanded programs use our reserve worth alot--so three jobs here

## A Profile of 2011 Survey Respondents



\*Includes Mutual/Membership Benefit (1%), International, Foreign Affairs (1%), Houses of Worship (1%), Miscellaneous (7%).

Now in its third year, NFF's Annual Survey has captured more data than ever before. The majority of respondents in each year represented small to mid-sized organizations, with Human Services

leading, followed by Arts, Culture, & Humanities, and Education. With three sets of respondents representing similar characteristics, we're using available data to explore possible emerging trends.

Learn more about previous years' surveys at

[nonprofitfinancefund.org/survey](http://nonprofitfinancefund.org/survey).



## Demand for Services is Rising

### How Did Demand for Services Change Each Year?

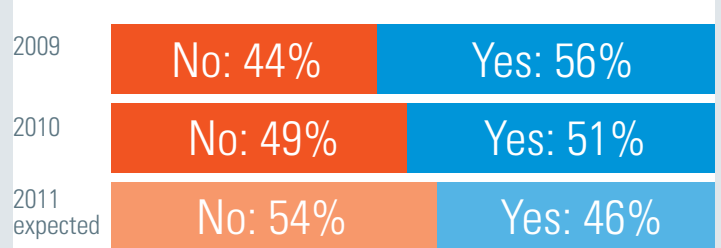
For years 2008, 2009, 2010

Chart 1



### Were Nonprofits Able to Meet Demand for Services?

Chart 2



More nonprofits are reporting significant increases in service demand compared to previous years — 41% in 2010, up from 31% in 2008 (Chart 1). It's important to note that every increase in demand is on top of increases in previous years. For some organizations, this might suggest that the need for services is significantly increasing every year.

Compared to last year, even fewer organizations are able to keep up with demand for services. If respondents' expectations for 2011 are correct, this downward trend will continue (Chart 2).

## Looking at Lifeline Organizations

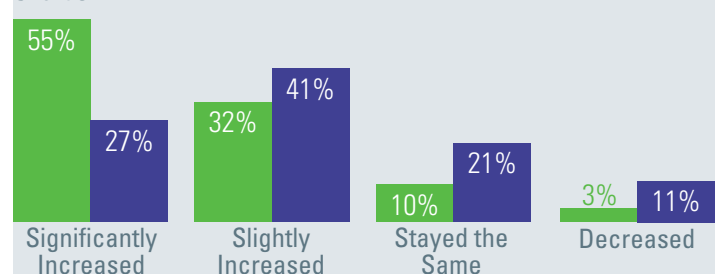
49% of respondents identified themselves as providing services critical to the health and safety of those in need. A higher percentage of these "lifeline" organizations are reporting significant increases in service demand, and fewer are reporting decreases or no change (Chart 3). To meet this demand:

- 60% of lifelines increased the number of clients served (compared to 39% for non-lifelines)
- 50% partnered with another organization to improve or increase services (vs. 44% for non-lifeline)
- 58% added or expanded programs (vs. 52% for non-lifeline)

Results suggest that the higher demand is taking a toll on these critical nonprofits, with 57% reporting an inability to keep up with demand (Chart 4). Their financial situation, however, is similar to overall results; in 2010, 33% reported deficits, 43% reported surpluses, and 24% were at break-even.

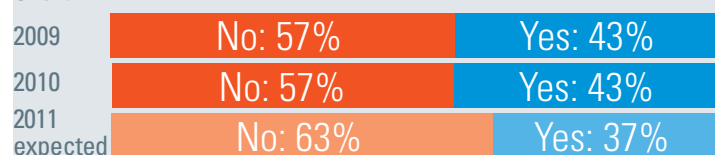
### Lifeline vs. Non-Lifeline 2010 Service Demand over Previous Year

Chart 3



### Were Lifeline NPOs Able to Meet Demand for Services?

Chart 4

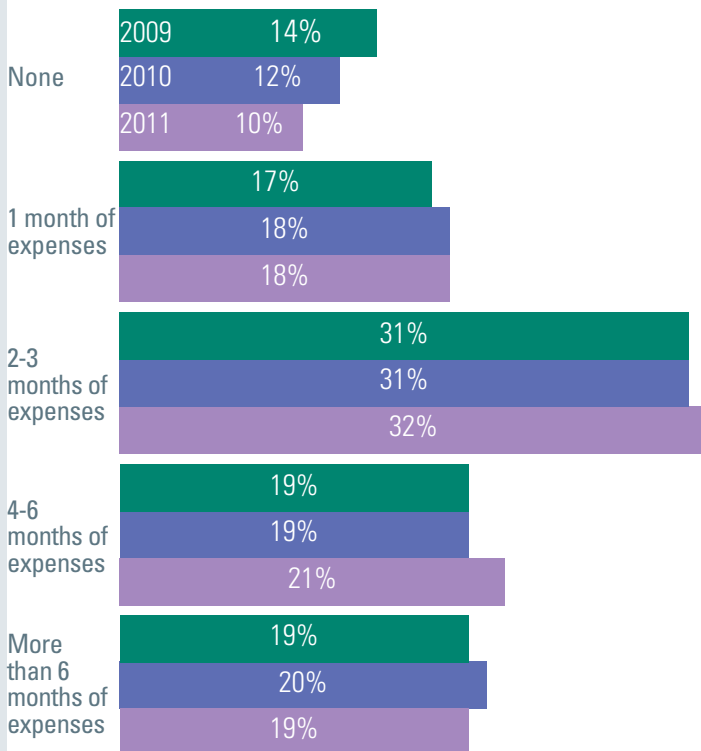


## Finances Show A Glimmer of Improvement

### How Many Months of Cash Do Nonprofits Have on Hand?

For years 2009, 2010, 2011

Chart 5

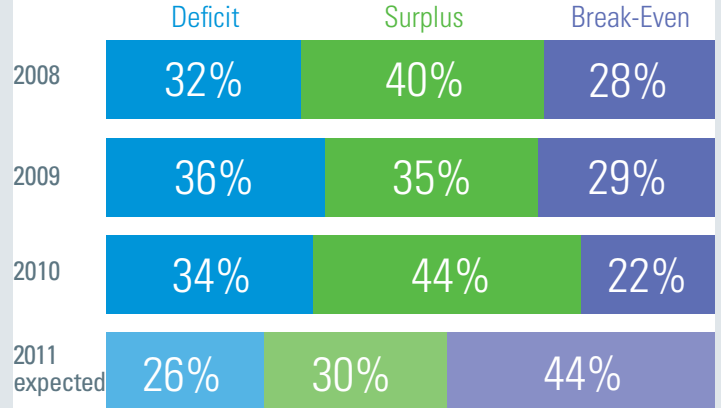


We're happy to report a slight decrease in the number of organizations with no cash available. However, the more the economy has changed, the more cash stays the same; three-year reports for months of cash were strikingly similar across all categories (Chart 5). NFF generally recommends that nonprofits maintain at least 3 months of cash. However, this amount varies depending on an organization's strategic plans, business model, and the reliability of revenue streams.

About one-third of respondents reported a deficit in 2010, similar to previous years. When we asked respondents at the beginning of 2010

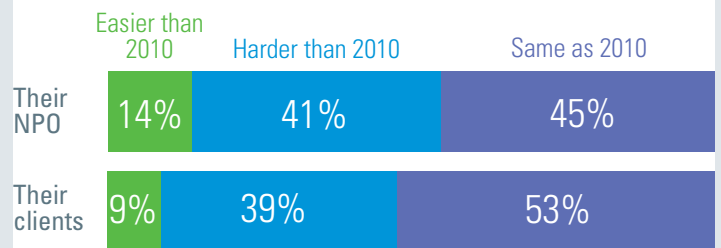
### What Was the Financial State of Organizations at Year-End?

Chart 6



### What Are Nonprofits' Outlooks in 2011 for...

Chart 7



to predict their financial results for the year, 18% expected surpluses; in contrast, 44% actually ended 2010 with surpluses. This year, more respondents— 30%— expect surpluses by the end of 2011 (Chart 6).

The last three years of data paint a picture of nonprofits fighting for financial stability while facing fast-climbing demand. 41% of respondents believe that 2011 may be even harder than 2010 for their organizations. Many believe that 2011 will be similar to the already difficult circumstances of 2010, suggesting that nonprofits may be adjusting to the new normal of our post-recession environment (Chart 7).

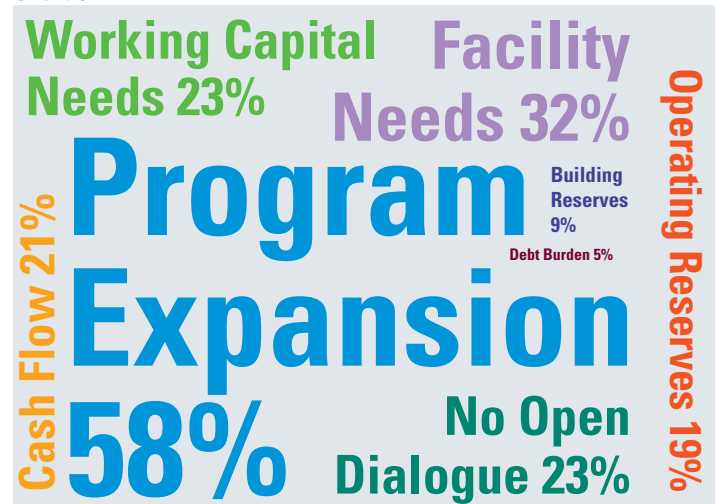
## Open Dialogue

Nonprofits' perceptions about their support from funders influence their management strategies and the ways they cope with problems. The data cloud to the right describes what nonprofits feel they can openly discuss with funders. The topics most difficult to see?: Only 5% felt they could discuss Debt Burden, followed by 9% for Building Reserves. 23% didn't feel that their funders would engage in dialogue about any of the topics listed. Outside of program expansion, no category received a response rate over 32%, raising the question: what issues are nonprofits and funders discussing, and how can we better fit financial issues into the conversation?

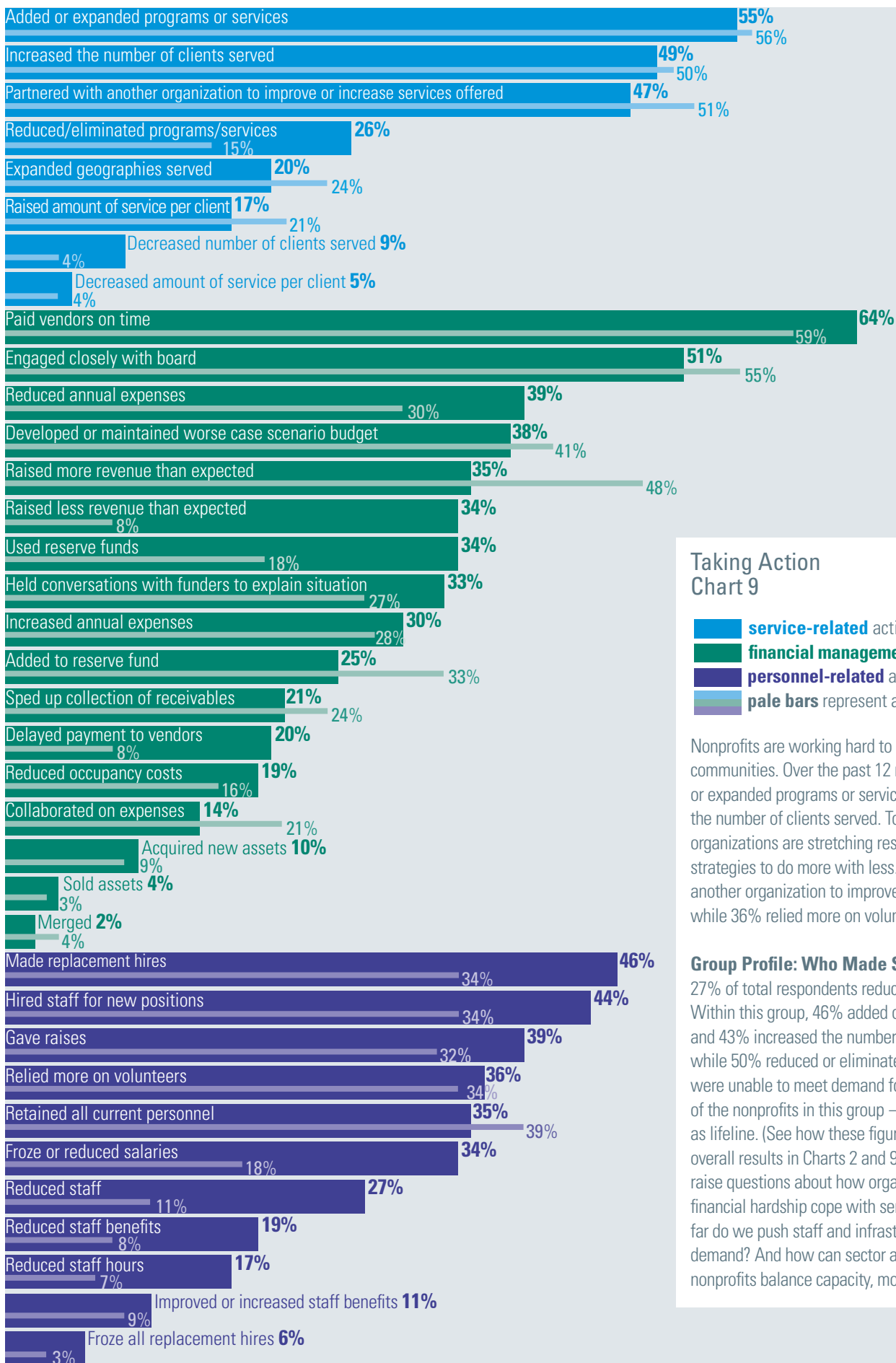
We asked nonprofits what they wished their funders would do differently. In interpreting this qualitative data, we found that 50% asked for more general operating or capacity support, while 11% asked funders to fund what already works, rather than asking for something new. These concerns contrast with the emphasis on Program Expansion to the right.

### My Nonprofit Can Have an Open Dialogue with Funders About...

Chart 8



## Responding to the New Normal



### Taking Action Chart 9

- **service-related** actions taken in '10
- **financial management** actions taken in '10
- **personnel-related** actions taken in '10
- **pale bars** represent actions planned for '11

Nonprofits are working hard to serve their communities. Over the past 12 months, 55% added or expanded programs or services and 49% increased the number of clients served. To meet the demand, organizations are stretching resources and developing strategies to do more with less. 47% partnered with another organization to improve or increase services, while 36% relied more on volunteers.

### Group Profile: Who Made Staff Reductions?

27% of total respondents reduced staff in 2010. Within this group, 46% added or expanded programs and 43% increased the number of people served, while 50% reduced or eliminated programs. 58% were unable to meet demand for services. Over half of the nonprofits in this group—57%—identified as lifeline. (See how these figures contrast with overall results in Charts 2 and 9.) This data might raise questions about how organizations managing financial hardship cope with service provision. How far do we push staff and infrastructure to meet demand? And how can sector advocates better help nonprofits balance capacity, money and mission?

## How Can We All Better Support Nonprofits?

We asked nonprofit leaders to tell us one thing they would like to see funders do differently to better help their organizations. While the responses to this open-ended question varied, strong themes emerged. Most prevalent by far was the need for more general operating or capacity support, expressed by 50% of respondents. They reminded us that a strong organization is the backbone for consistent, successful programs. Along with this, they requested that funders place greater trust in well-run and effective nonprofits to allocate money according to their own needs. Many also asked that funders support the core work an organization is already doing well, rather than requesting new initiatives. To learn more, visit us at [nonprofitfinancefund.org/survey](https://nonprofitfinancefund.org/survey).

50%

13%

11%

11%

8%

8%

5%

4%

4%

2%

2%

2%

1%

1%

1%

### Themes from Open-Ended Responses

#### Support General Operating & Capacity Costs

753 respondents expressed the need for more unrestricted, capacity, and/or general operating support.

#### Listen, Learn, Communicate

198 respondents wanted more dialogue and to hear honest feedback from current / prospective funders.

#### Fund What Already Works

172 nonprofits asked funders to support successful core programs, not just growth and innovation.

#### Provide Longer-Term Support

164 respondents wanted multi-year support, help planning for long-term sustainability, or help widening their funding network.

#### Other

116 respondents represented a variety of perspectives not shared by more than 10 other respondents.

#### Make the Grant Process Easier & Cheaper

115 wanted a more streamlined process that acknowledges the costs to the organization of applying for and reporting on grants.

#### Consider Cash Flow Concerns

74 wished funders would provide critical working capital and make disbursements more quickly once a grant is announced.

#### Give More Money

63 respondents focused on this classic nonprofit problem.

#### Be Open to Change

59 wanted funders to consider supporting start-ups, expansion efforts, and making grants outside their traditional areas.

#### Pay the Full Cost

32 asked funders to pay the full cost of services provided.

#### Support and Engage in Collaboration

31 wanted funders to support nonprofit collaborations and also provide grants in strategic partnerships with other funders.

#### Give Capital, For Facilities & Big Projects

30 respondents needed capital for facility-related costs and everything from fixed assets to growth.

#### Fund Small Nonprofits

22 felt that small nonprofits were under-recognized.

#### Provide or Help us Manage Loans

19 wanted loans, PRLs, or assistance with debt relief during these challenging times.

#### Support the Arts

12 remarked that the arts are often underfunded and overlooked.

### In their Own Words: Quotes from the Survey

"Allow for unrestricted operating grants for nonprofit organizations with a proven, successful track record."

"Allot sufficient (foundation) staff resources to take the time to listen to the value of our programs to our community and constituencies served. Consider the importance and value of deep impact to small communities. Advise and counsel worthy programs during the grant-seeking process, by using (funder's) field-wide expertise and give grant-seekers feedback on the process and how they fit into the bigger picture."

"Fund the organization's operating costs, not looking for innovation, new projects, transformation. Support the organization already doing a good job performing against its mission. Don't look for or favor fancy narratives and budgets making a case that require costly staff to write eloquently..."

"Address the need to help nonprofits diversify funding streams and understand the idiosyncratic factors involved in achieving organizational sustainability."

"Make multi-year commitments with timely checkpoints for accountability."

"Streamline the application process, and don't require an amount of work for proposals/reports that's out of proportion to the grant award amount."

"Consider adjusting payment schedules to advance annual payments by 6 months to improve cash flow — not increase funding, simply time it more effectively."

"Recognize the full cost of programs (including fund raising and general & administrative costs), particularly across funding cycles. We're on a constant roller coaster because we limp from one funding cycle to the next, never being able to engage in long-term change."



## Further Exploration

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Despite expectations of continued increases in demand for services, nonprofits continue to be resourceful in making ends meet. From collaboration to cost management to better communication, nonprofits are using a variety of strategies to protect their underlying infrastructure and enterprise while providing the best services possible to the most people. This delicate balance between mission, capacity, and capital becomes increasingly difficult when organizations experience upheaval — whether due to a recession, the loss of a funding source, or unexpected expenses.

This document primarily reflects national results. If you would like more information on a subgroup of organizations, such as a particular sector, geography, or financial condition, please contact your nearest NFF office. We'll also be posting further explorations of the results online at the links below.

[nonprofitfinancefund.org/survey](http://nonprofitfinancefund.org/survey)  
[nonprofitfinancefund.org/blog](http://nonprofitfinancefund.org/blog)  
[twitter.com/nff\\_news](https://twitter.com/nff_news)

## About Us

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NFF makes millions of dollars in loans to nonprofits and pushes for improvement in how money is given and used in the sector. Since 1980, we've worked to connect money to mission effectively so that nonprofits can keep doing what they do so well. We provide financing, consulting, and advocacy services to nonprofits and funders nationwide. Our services help great organizations stay in balance, so that they're able to successfully adapt to changing financial circumstances—in both good and bad economic times—and grow and innovate when they're ready.

In addition to providing loans and lines of credit, we organize financial training workshops, perform business analyses, and offer customized consulting services. For funders, we provide support with structuring of philanthropic capital and program-related investments, manage capital for guided investment in programs, and provide advice and research to help maximize the impact of grants.

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grants. Continuous communication with donors either through newsletter or letter from the president thanking them for the support they have given which ultimately made 2010 one of the best years of the organization. With a struggle we were able to increase our lines of credit by using invested endowment funds as collateral for the loan. Our expenses are at a bare minimum. We have run this way for 3 years and we are still puttering along. However, what is happening is that I am using my personal funds to pay for things like office supplies that I used to have a budget for. You do what you have to do to stay open. No staff lost their position because of the economy. No elderly resident was displaced because of our financial situation. We sought collaboration and affiliation. Housed an additional 40 homeless mentally ill in 2010 bringing total assisted to over 230... Staff stayed focused on providing good services to clientele resulting in positive data outcomes. Dramatically expanding service in difficult economic times. We engaged new sources of revenue and increased several existing revenue sources. We were able to meet the growing need of our community, hire new staff and avoid layoffs all the while giving out bonuses and merit increases by strictly controlling our expenses and working to attract more fee paying clients. We were able to continue to provide high quality services with less staff and weather the financial crisis with a minimum of negative impact on staff and families.. We were more aggressive in fund development and were successful; became more diversified in funding sources; and were able to manage expenses. These factors enabled us to end the year with a small gain in working capital. Through some cost-cutting measures (reduce benefits, eliminate positions, control spending) plus increased revenue through one income producing program, we ended the year in the black. We are proud that we have been able to keep up with greatly increased demand for our services, without compromising quality. We were able to reduce annual spending and increase revenue by securing more in-kind donations and strategically targeting partners with aligned missions. New initiatives or projects were developed with the assistance of consultants, or administrative and accounting functions were outsourced which improved efficiency and reduced hiring costs. We extended services to 28% more individuals and stayed on budget. We're extremely efficient. Through the generosity of the donors in our area, we were able to maintain service and staff levels in a time of economic down turn. This, of course, did not increase our ability to serve our constituents, but at least we did not decrease service. Increasing private giving, negotiating with County funders, did not reduce health benefit to employees, transitioned programs to like agencies. Reduced expenses without diminishing services, and lowered fees. Increased number of clients served while experiencing a reduction in revenue. We were able to complete all committed programs at the end of FY2010, despite significant cut-backs in revenue, due to a cut-back in overhead and some program expenses. The budget decisions were made collaboratively across service areas. Everyone was willing to chip in as long as we could preserve jobs. Engaging the board and staff on the process of looking together the economic problems we were facing. Working together as a team and finding solutions to maintain the program with a realistic budget. We were able to reduce costs/expenses: cut phone service to one line, reduced the salary of the Executive Director, renegotiated the rent of our space. Managed to cut operating costs by around \$5,000.00 without taking away from our program. We maintained fiscal discipline and so were able to raise philanthropic dollars and secure bond financing for a major addition. We were able to raise more money in 2010 than at any time in our history, despite the economy. Good marketing, broader grass-roots fundraising efforts, many small events all helped us to be successful. Reduced operating expenses and reallocated work among present staff; leveraging time and talents for use on new projects. Continued quality services even though the uncertainty around funding and cash flow gives us pause - we are actively seeking to diversify revenue streams and our board understands that we may need to invest in program development in order to end reliance on specific funding sources. We held the line with our finances in place. We learned to do more with little and still maintain our budget cost. We cut costs and streamlined our program model to be more efficient, by outsourcing a component of our service for school partners to take on, which has worked very well. We are a leaner, more nimble organization now as a result. Made a strong commitment to meet the accelerating needs in our community which has allowed us to increase revenue while holding admin costs steady. We stayed afloat! Despite increases in the number of clients and services requested by those clients, we have been able to meet those needs while reducing expenses at the same time through operating efficiency gains. We have strengthened our fund development program and outreach to donors; strengthened board involvement in fund raising; successfully grown our service program with sustainability as a key element for success; developed relationships with 4 organizations to serve the community we focus on; maintained our ability to conduct a full audit by an outside firm.. Renegotiated vendor contracts to reduce costs. Relationship building with foundations, increased funds to continue our mission without further reductions in hours or paid staff...We have been growing reserves over the past few years, but now must draw down reserves at least for the next two years. Recognized a potential deficit developing 5 months into the current fiscal year and took fairly immediate steps to alleviate it. We been cutting down since 2006 and continue to do it. The state is not releasing any payments they owe us since 2008. And no new funding available to continue serving all the under served population. We continue to be good stewards on each and every donation. We take pride in making each dollar go as far as possible to further our cause to alleviate hunger in our community. Just to keep my (our) head above water. We have held