



STATE OF THE NONPROFIT SECTOR

2015 SURVEY

Bank of America 

the David &
Lucile Packard
FOUNDATION

2015 survey generously supported by the Bank of America Charitable Foundation and the David & Lucile Packard Foundation.

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A FIELD IN FLUX

In 2014, the social sector generated stories of both promising innovation and overwhelming challenges. In fundraising, the ALS Ice Bucket Challenge, which raised over \$100 million from 3 million donors, reminded us of the power of individual giving and the underutilized potential of social media. In the same year, New York City's largest human services agency reached the brink of bankruptcy after providing essential services for 80 years. Over 100,000 clients are suddenly facing a disruption in services, coming to the end of what was for many a decades-long relationship with the agency.

NFF's 2015 State of the Nonprofit Sector Survey focuses on the underlying causes of these dynamics by exploring the programmatic, financial, and operational issues facing nonprofits across the U.S.¹ We launched the Survey in 2008, when economic crisis threatened the viability of many organizations. Seven years later, results from 5,451 respondents show some indications of recovery, stabilization, and growth. Nonprofits are adding jobs, engaging in strategic conversations such as leadership

“Although we manage to keep our financial heads above water – [our greatest challenge] is the uncertainty and constancy of operating on such a knife edge.”

— Arts, Culture and Humanities NPO, WA

succession planning, and looking to retain their workforce. Yet as they raise their sights from the focus on short-term crisis, many are confronting the troubling reality that current practices cannot sustain organizations in the long-term or meet the needs of the communities they serve now. Many organizations have stumbled out of crisis looking to make the necessary investments to secure their long-term future. And it is a hard road ahead.

RISING NEED: A PAINFULLY FAMILIAR STORY

For every year that NFF has conducted the survey, the vast majority of nonprofits report increases in demand for services. Emerging from the recession has not changed this trend. 76% of respondents reported that demand for their services increased in 2014, and for the third year in a row, more than half (52%) were unable to meet that demand. 84% project an increase in demand in 2015, while only 48% anticipate being able to meet the demand. Nationally, nonprofits reported affordable housing as a top community need. Among nonprofits primarily or exclusively serving low-income communities, which accounted for 67% of respondents, the needs were even more pronounced: 81% reported rising demand, and 43% identified affordable housing as the most critical community need.

“Cutbacks in the government-provided social safety net are increasing demand for agencies, such as ours, that provide emergency response and an alternative safety net for low-income communities.”

—Human Services NPO, CT

PERCENTAGE OF RESPONDENTS WHO REPORTED AN INCREASE IN DEMAND FOR SERVICES IN 2014



TOP COMMUNITY NEEDS



Note: respondents were asked to identify three critical needs, and therefore, percentages total over 100%.

FISSURES IN THE SOCIAL SAFETY NET

RESPONDENTS NOT ABLE TO MEET DEMAND



52%

While many organizations may be moving toward stability, the populations they serve are not. With more than half unable to meet demand, the data suggest that some organizations have resigned themselves to the fact that they must turn people away in order to stay in business, balancing their commitment to mission against the hard realities of capacity and capital. But what happens to the people who are turned away? Of the nonprofits

that couldn't meet demand, 71% reported that their needs ultimately go unmet. Human Services nonprofits were even more likely to report that clients who are turned away go without services (77%). This suggests a gap in services, indicative of a collective failure that is even more troubling than the challenges of individual organizations.

HOW DO CLIENTS COPE IF TURNED AWAY?



RESPONSES NOT DISPLAYED ABOVE: 14% DON'T KNOW, 10% OTHER

WHAT DOES IT TAKE TO THRIVE?

The 2015 State of the Nonprofit Sector Survey is a tale of two realities. Encouragingly, 76% of organizations reported finishing FY 2014 with break-even financials or a surplus, while 24% reported an operating deficit—the best financial results we’ve seen since we began collecting this data in 2009. Yet financial improvements do not necessarily indicate stability. In fact, even organizations that achieved operating surpluses reported long-term sustainability as their greatest challenge. As such, this raises the question: what exactly does it take to get ahead when even financially sound organizations feel like they are struggling to find solid ground?

The survey data shows us that nonprofits are trying to allocate space for long-term thinking in our post-recession climate. To support these efforts, this year we have blended our survey analysis with a set of recommendations for both nonprofits and their funders to plan for sustainability in 2015 and beyond. We cannot be complacent with single-year gains. Adaptability for the sector requires improving the operating climate in both the long and short term.

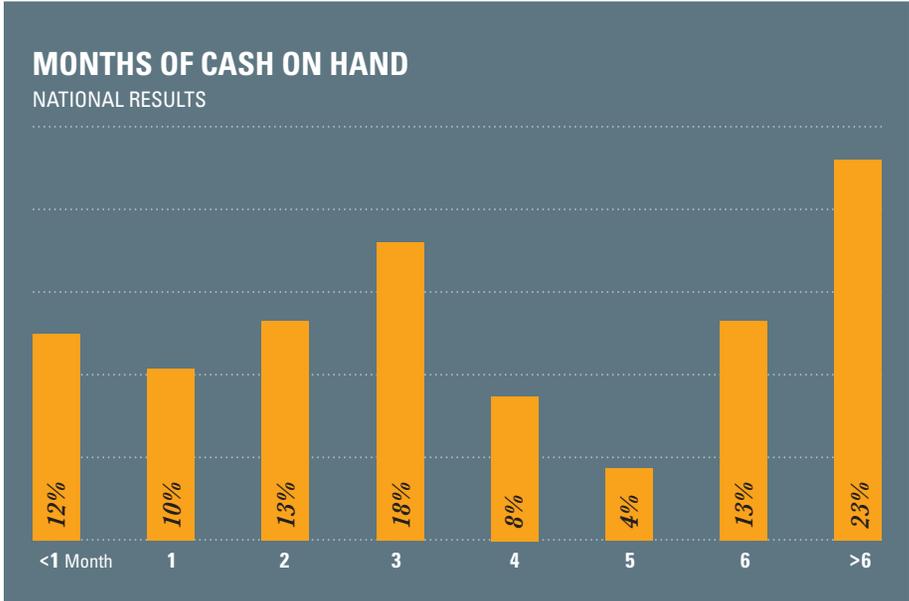
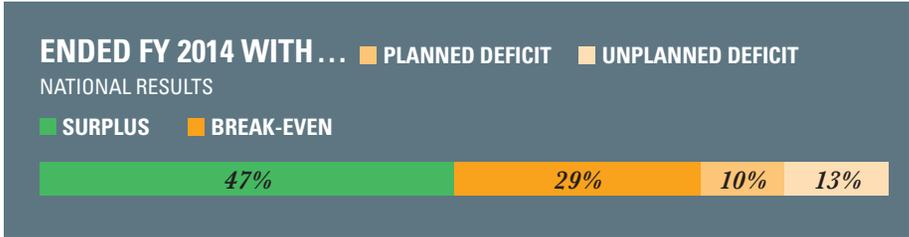
“Sustainable funding continues to be our greatest challenge. Our actions to address this challenge include developing and adhering to a strong and dynamic strategic plan; diversifying our program funding streams as much as possible; developing and communicating a strong community impact statement for our programs; and focusing on increased donor engagement in order to increase fundraising dollars.”

— Human Services NPO, NC

NONPROFIT DYNAMICS

End of year financials for 2014 are the best our Survey has reported in its seven years. Almost half of respondents reported surpluses. And yet, 35% of organizations had 2 months or less of cash on hand.

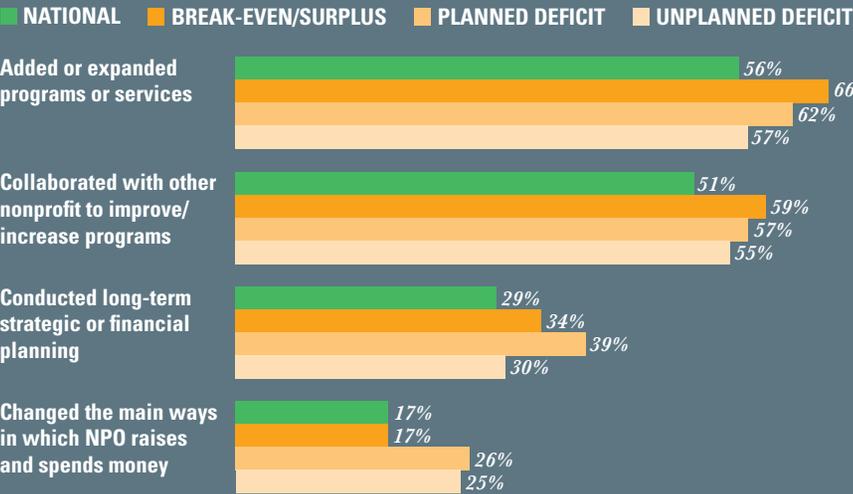
To better understand patterns based on indicators of financial health, we compared responses for nonprofits that reported different financial results in 2014. Organizations with unplanned deficits were more likely to have lower months of cash on hand. Nonprofits with small operating budgets were just as likely as those with large operating budgets to achieve a surplus or break-even financials.



NONPROFIT DYNAMICS

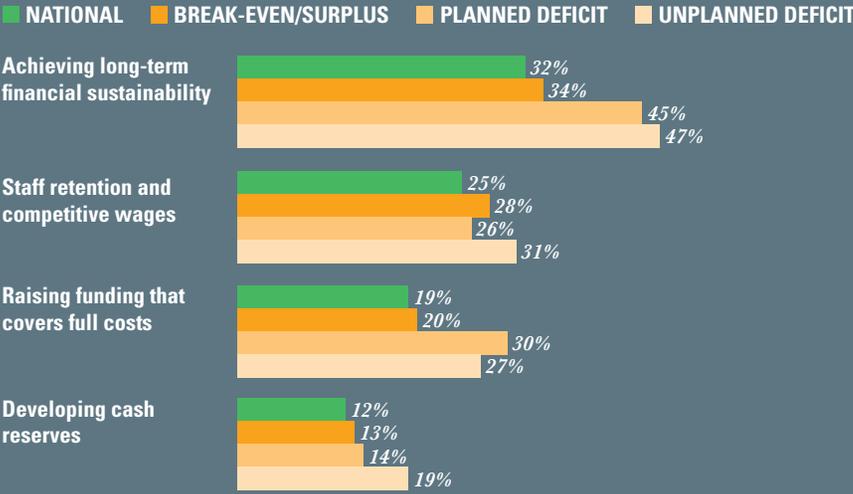
KEY ACTIONS IN 2014

Respondents reporting planned deficits or better financials were slightly more likely to engage in long-term financial or strategic planning in comparison to other groups.



TOP CHALLENGES

Regardless of financial condition, long-term financial sustainability was reported as a top challenge.

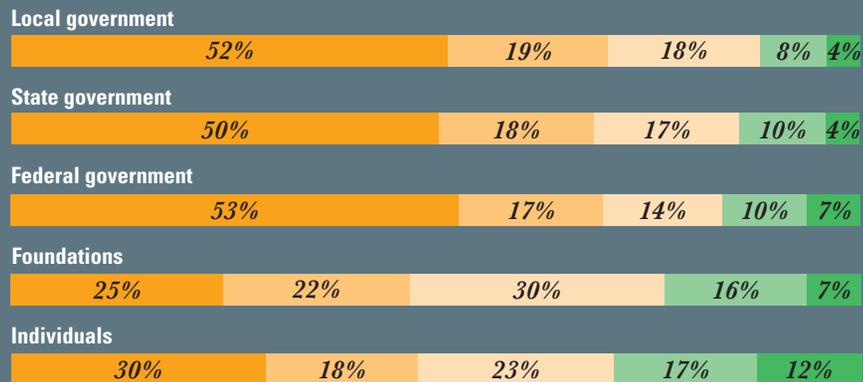


FUNDER PRACTICES

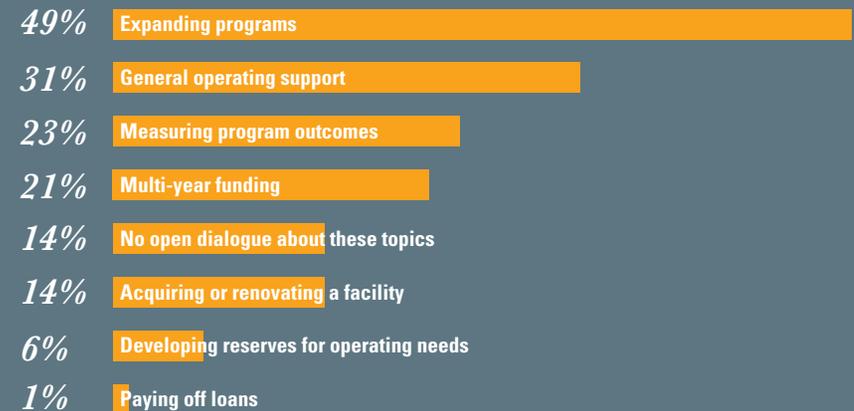
A California-based foundation puts it succinctly: “Requests for funding have doubled in the last year while dollars available for granting [have] only slightly increased. The trend driving increased demand is increased competition for scarce grant dollars in the marketplace.” As requests pour in and funders struggle to manage the demand, what can funders do to develop better relationships with their grantees and better meet the needs of the community?

HOW OFTEN FUNDERS COVER THE FULL COSTS OF PROGRAMS

NEVER RARELY SOMETIMES OFTEN ALWAYS



MY ORGANIZATION CAN HAVE AN OPEN DIALOGUE WITH FUNDERS ABOUT ...



RESPONSES NOT DISPLAYED ABOVE: 17% ORGANIZATIONAL CHANGE OR ADAPTATION, 8% WORKING CAPITAL (CASH-FLOW NEEDS), 6% FLEXIBLE CAPITAL FOR ORGANIZATIONAL CHANGE/ GROWTH, 4% DEVELOPING RESERVES FOR LONG-TERM FACILITY NEEDS, 3% OTHER

FUNDER PRACTICES

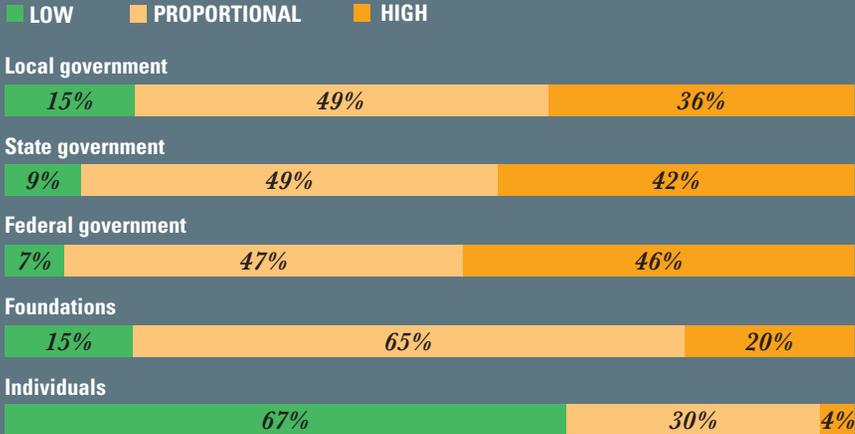
PORTION OF FUNDERS THAT ASK FOR OUTPUT OR OUTCOME DATA IN REPORTS



HOW OFTEN FUNDERS COVER THE COSTS ASSOCIATED WITH MEASURING PROGRAM OUTPUTS OR OUTCOMES



REPORTING REQUIREMENTS IN RELATION TO FUNDING AMOUNTS IN 2014



WHERE DO WE GO FROM HERE?

Nonprofits, like all businesses, must deal with the simultaneous challenges of managing for today and building for the future. Nonprofits, regardless of their financial health, are seeking to implement practices that position themselves for long-term stability.

Yet even the best financial and operational practices will not be enough if the systems in which nonprofits operate are unintentionally working against them. Dialogue with funders continues to center around program expansion rather than the health of the enterprises delivering those programs. Meanwhile, government payment delays continue to undermine program delivery. And despite ongoing conversations in the sector, the overhead myth is still alive, thwarting efforts by some to invest in long-term sustainability.

All of these factors contribute to a chronically brittle sector living under the constant fear that a small misstep could lead to a massive fracture.

At the same time, some systemic practices may be improving. For example, 65% of survey respondents said that foundation reporting requirements were commensurate with the grant amount. As we consider the long-term viability of the social sector, we will need to build the systems and follow the practices that will bolster the resilience and adaptability of organizations, and not simply address short-term survival. We hope the high-level advice in this report, based on Survey results and our years in the field, helps nonprofits and funders push toward long-term sustainability that will ultimately benefit the clients we serve every day.

STRATEGIC ADVICE FOR NONPROFITS

Chronically tight budgets can lead to a vicious cycle of cut corners that affect staff retention and, ultimately, programs. Breaking out of this cycle is difficult when resources are scarce. But reframing some financial practices through the lens of a multi-year plan is crucial to support long-term viability and can make a nonprofit more nimble over time. If you work in a nonprofit organization, ask yourself what you are doing to build long-term solutions.

ARE WE ASKING FOR FULL FUNDING?

58% of respondents reported that funders (government, foundations, or individuals) never or rarely cover the full cost of the projects they support. And a third of respondents that received government funding (either federal, state, or local) reported average indirect cost rates of 0–3%. Although nonprofits have made some progress, the problem still persists. Yet sometimes, we contribute to the problem. To stand out in a competitive fundraising environment and serve our clients in new and better ways, we often ask for—or accept—funds that don't cover the full cost of programming. On top of this, nonprofits don't always know their full costs. This chronic under-pricing can lead to staff turnover, service disruption, or bankruptcy. No one wins. We cannot turn down all grants that don't pay full costs, but we can work harder to articulate to funders what our full costs are.

We had cash flow issues for the last quarter of the fiscal year. Though we raised more in grants and pledges than we had budgeted, the timeline and liquidity continued to make expansion and even meeting requested needs difficult.”

— Education NPO, FL

HAVE WE CUSHIONED OUR BUDGET?

29% of this year's respondents broke even in 2014. But breaking even is rarely enough to plan for long-term adaptability. To help grow surpluses, organizations can build in conservative budgeting practices that look beyond the current fiscal year, underestimating expected revenue, over-estimating expected costs, and regularly monitoring how forecasts align with reality. Over time, honing the budgeting process can help cushion against the impact of shortfalls that can tip an organization into a fragile state.

DO WE PROJECT MONTHLY CASH FLOW?

31% of nonprofits with government funding reported payment delays more than 30 days late. For organizations with low months of cash, a delayed payment can snowball into a cash crisis that can lead to unpaid bills and, as a last resort, unpaid staff. Careful cash flow planning is critical for nonprofits living in an uncertain funding environment. By understanding monthly cash flow patterns and building in contingencies to cope, we have seen organizations rebound from the strain of tight budgets and become more adaptable over time.

HAVE WE PLANNED PRUDENTLY FOR GROWTH OR CHANGE?

Adding or growing programs requires long-term planning that recognizes the pressure to cover added costs will be permanent. Yet some respondents may not be prepared for sustainable growth. **Of the 3,041 respondents that reported pursuing program expansion in 2014, 22% had deficits.** Although growth often comes with planned deficits, 12% of these growing nonprofits had unplanned deficits. Program growth also entails building infrastructure to match it, such as upgrading technology to meet increased reporting requirements. On average, just 39% of these expanding nonprofits stated they made hardware or software upgrades, whether to support programming or operations.

STRATEGIC ADVICE FOR NONPROFITS

ARE WE BUILDING ADEQUATE RESERVES?

In 2014, 21% of nonprofits added to reserves, while 16% used reserves. In 2015, 31% anticipate adding to reserves. For a sector that largely operates on subsidy, setting aside reserves for specific needs often seems like a luxury, because of commitment to mission work or fundraising challenges. Ensuring a solid fiscal foundation, however, will only strengthen programs and services in the long run. Organizations use reserves in a variety of ways, including managing delays in government payments (39%), and planning for change, growth, facility needs, and much more.

HOW ARE WE INFLUENCING THE SYSTEM?

While sound financial practices better position your organization for adaptability, the systemic practices standing in the way can only be solved with partnerships. Building relationships with government agencies, elected officials, and sector partners is critical in advancing the larger social sector agenda. **A third of nonprofits engaged in government advocacy work.** Not only do nonprofits lobby policymakers for improved funding practices, they also influence policies to promote positive outcomes in the communities we serve.

ARE WE LOOKING BEYOND OUR SILO?

Nonprofits are also engaging with their peers, recognizing that filling the gaps in the safety net can take collaboration on both programs and operations. **51% of survey respondents reported they collaborate with other nonprofits to improve or increase programs and services. 13% of nonprofits collaborated on administrative expenses.** By building relationships, we can increase capacity and strengthen client referral networks. This year's survey also revealed that 17% employed an integrated approach to holistically address client needs, as opposed to providing disparate programming for distinct problems.

... stagnating incomes and rising housing costs are causing more people to seek food assistance... As a result, we are considering additional collaborative efforts with partners in adjacent safety net spaces...”

—Human Services NPO, CA

STRATEGIC ADVICE FOR FUNDERS

Nonprofits struggle with sustainability regardless of their financial practices because many challenges are systemic, tied to broader economic forces or simply a reflection of local funding environments. How can funders support the long-term sustainability of their grantees and, ultimately, the entire sector? We encourage funders to consider these questions.

If we have a program that needs \$40K to operate, we ask for \$40K and the funder gives us \$5K. The funder still expects the same type of programming as the \$40K budget but for their 5K investment.”

— Youth Development NPO, MA

ARE WE FUNDING THE FULL COST OF PROGRAMS?

Almost 70% of respondents reported that government funders never or rarely covered full costs. 47% of respondents said the same of foundations. This exacerbates the hand-to-mouth existence of many nonprofits. Funders can better support nonprofits to achieve adaptability by more frequently funding *organizations*, rather than *programs*. Focus on finding out what organizations need to sustain their long-term health and learn to separate these investments in organizational health from “overhead.”

CAN WE MEET GRANTEE NEEDS WITH MORE THAN PROGRAM GRANTS?

The financial tools that nonprofits need are not always the ones that funders offer. **For example, only 8% of respondents stated they could discuss working capital to manage cash flow, while 1% felt comfortable discussing loan repayment.** Meanwhile, 35% had 2 months or less of cash, and 37% were carrying debt. Funders can better support nonprofits by offering a broader range of financial tools including impact investments, philanthropic equity, and multi-year planning grants that ease the loss of funding when support ends. For example, funders can offer credit guarantees to lower borrowing costs, which can free organizations from diverting more revenue to loan repayments.

DO WE PROVIDE UNRESTRICTED FUNDING AND/OR GENERAL OPERATING SUPPORT?

Program funding is generally easier to raise than unrestricted funding or general operating support. **Only a third of nonprofits (31%) said they could discuss the need for general operating support with their funders.** For example, nonprofits reported they are more comfortable discussing program expansion than anything else with funders (49%). However, operating costs keep the lights on, the rent paid, and the doors open. And unrestricted funding gives nonprofits flexibility to manage challenges such as government payment delays or uneven cash flow.

STRATEGIC ADVICE FOR FUNDERS

Our greatest challenge is staff turnover; [as] a nonprofit our wages aren't competitive. We try to compensate with benefits, but when our revenue is down, we are unable to do so."

—Human Services NPO, FL

CAN OUR GRANTEES OFFER COMPETITIVE WAGES?

25% of respondents reported that offering competitive wages and staff retention was a top challenge. Often, the people hardest hit by these challenges are direct-service workers. A recent report further illuminates these concerns, citing the hardest positions for organizations to retain are entry and mid-level workers.² Funders can encourage grantees to offer competitive salaries through built-in performance-based salary increases for multi-year grants. By helping grantees retain staff and offer competitive wages, funders can strengthen leadership pipelines and bolster client services.

DO WE CONSIDER DATA COLLECTION A NUTS-AND-BOLTS EXPENSE OR A LUXURY?

Organizations face increased demands to measure outcomes—how services result in measurable societal improvements. Yet funding is not keeping up with this new reality. Frequently, nonprofits are sidled with unfunded mandates to purchase software, upgrade systems, and allocate staff time to track outputs and outcomes. **89% of respondents say they are asked to collect data and capture the effectiveness of programming, while 68% say that funders rarely or never provide adequate financial support for evaluation.** Nonprofits need resources to ensure high-quality data management.

ARE WE HELPING OUR GRANTEES BUILD RESERVES?

Only 6% of respondents stated they could talk to funders about building reserves for operating needs. By helping organizations build reserves, funders can help their grantees stay afloat in uncertain times. Yet nonprofits are often penalized for generating surpluses (aka: profits), which cover expenses for future years. This older ideology, based in the fading belief that doing good means living frugally, still shadows the sector. But funders are increasingly encouraging reserve-building programs by matching deposits into reserves and providing capacity-building support.

WHAT CAN WE DO TO FOSTER DIALOGUE ABOUT LONG-TERM FINANCIAL HEALTH?

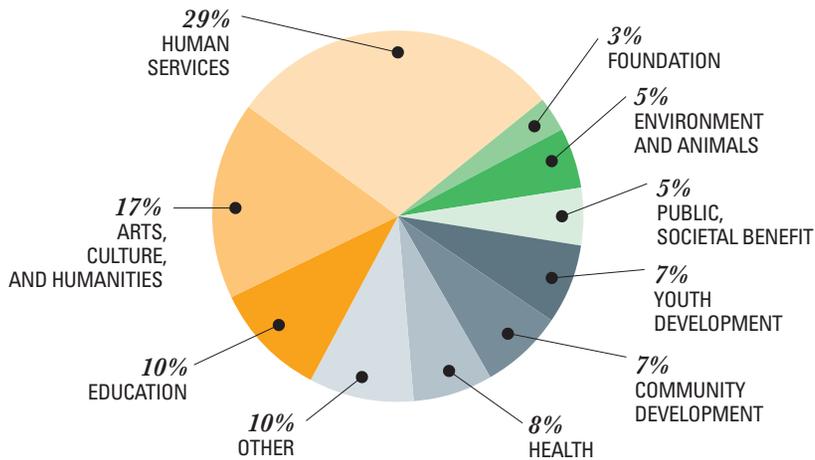
14% of NPOs report that their funders were not open to dialogue on a wide range of issues including working capital, loan repayment, multi-year funding, or facility renovation. Given the inherent power dynamic in the funder-grantee relationship, conscientious funders must create the space for transparent conversations. First, learn what financial health entails. Then ask your grantees what financial challenges keep them up at night and what you can do to help.

HIGHLIGHTS

PROFILE OF RESPONDENTS

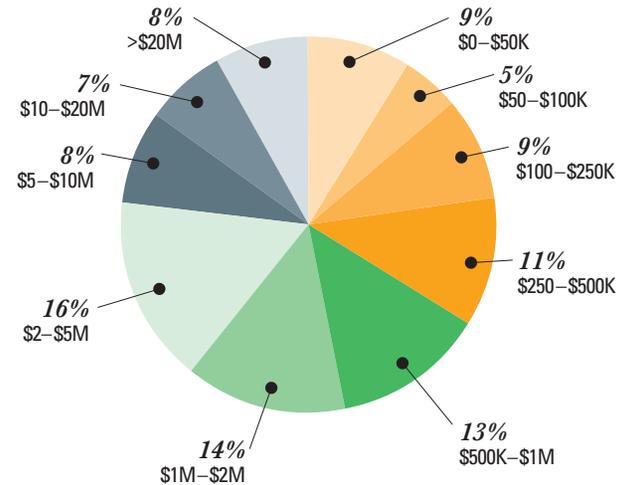
NFF's 2015 Nonprofit Survey received responses from all 50 states, the District of Columbia, and Puerto Rico. Respondents represent a broad range of missions, with the highest percentage identifying as Human Services or Arts, Culture, and Humanities. Of Arts nonprofits, museums (15%) and theatres (13%) had the highest representation. Half of all respondents consider themselves to be lifeline organizations, providing critical services or programs to people in need.

RESPONDENTS BY SECTOR



"Other" includes the following categories, which each reflected 2% or less of total respondents: Workforce Development, Early Childhood Education (0-5 years), House of Worship, International/Foreign Affairs, Mutual/Membership Benefit, Veterans' Services, and Other.

RESPONDENTS BY OPERATING EXPENSE (FY2014)



HIGHLIGHTS

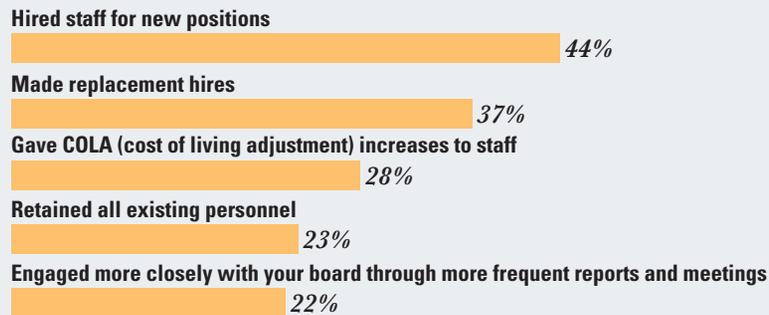
TAKING ACTION

In 2014, nonprofits engaged in a variety of activities related to programming, human capital, and operations and finance. These activities support a broad range of enterprise goals that are designed to improve overall efficiency, meet community need, support growth, and more. The actions listed below can be viewed as important indicators of the sector's health and provide insight into day-to-day activities.

PROGRAMS



HUMAN CAPITAL



OPERATIONS

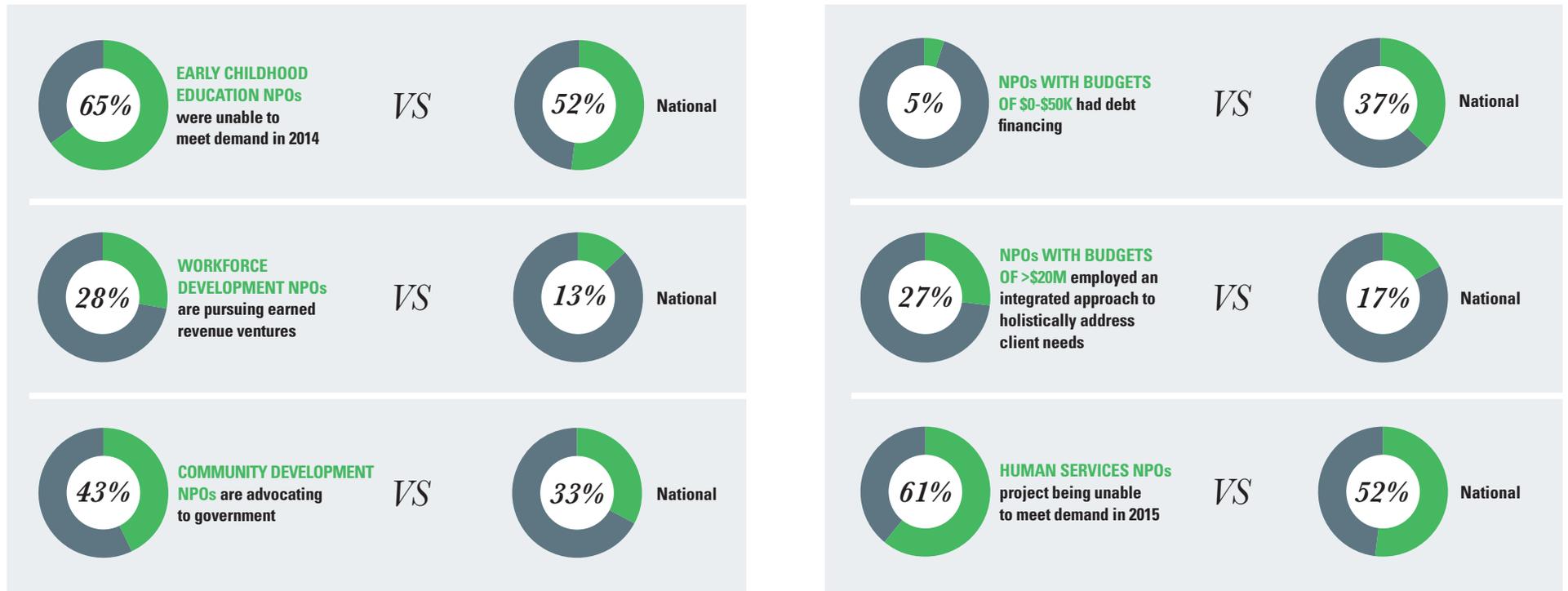


HIGHLIGHTS

WHO STANDS OUT

Looking at the national data provides a high-level snapshot of the nonprofit sector. However, interesting variations lie just below the surface of the national picture. Below are a few highlights of how sub-sectors compare to national trends.

SECTOR THEMES



LEARN MORE, AND EXPLORE YOUR OWN COMMUNITIES

There is much more data to explore than what we've featured here. See an interactive database of 2015 results at survey.nff.org, where you can filter results by geographic areas, sub-sectors, expenses, and more. You can also share your thoughts with the community by posting the results that are most relevant for you on Facebook or Twitter. Visit nff.org/survey to learn more about the survey and see results from previous years. Visit our Social Currency blog (nff.org/blog) for more discussion. Questions? Email us at survey@nff.org.

ABOUT NFF®

Nonprofit Finance Fund® (NFF®) unlocks the potential of mission-driven organizations through tailored investments, strategic advice and accessible insights. For 35 years, we've helped funders, nonprofits, and other organizations connect money to mission. Our services help great organizations stay in balance so they're able to adapt to changing financial circumstances and innovate when they're ready. A leading community development financial institution with over \$300 million in assets under management, NFF has provided \$575 million in financing and access to additional capital in support of over \$1.5 billion in projects for thousands of organizations nationwide.

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1 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.

2 "2015 Nonprofit Employment Practices Survey Results." NonprofitHR.com. Nonprofit HR LLC, February 2015.