



Nonprofit Finance Fund[®] 2010 State of the Sector Survey

Nonprofit Finance Fund's 2010 Survey tells the story of the relentless pursuit of mission in our sector. It follows up on our 2009 Survey, which revealed that nonprofits nationwide were hit hard by the financial conditions of late 2008 and 2009. The 1,315 responses show that many nonprofit leaders have persisted in their innate optimism, despite their predictions of an even more difficult year to come. But without better support and resources, their ability to serve their communities will not last.

At NFF, we believe that financial decisions are only as good as the data we use to make them. While some data exists, our sector is in need of better, more consistent information-gathering that can take us beyond anecdote to the patterns of finance. This is particularly vital in challenging and changing financial times like ours. Through our Annual Survey, we hope to identify short- and long-term trends in the financial dynamics of our sector. In turn, these observations can help nonprofits become more resilient and reveal a panorama of the coping strategies being used by their peers.

“We expect 2010 to be another treacherous year for many nonprofits that routinely take heroic measures to meet demand for services. The economic ‘recovery’ has not yet reached people in need, or the organizations that serve them. We must do more to repair the tattered social safety net.”

Clara Miller
President & CEO
Nonprofit Finance Fund

1,315
Nonprofits
responded

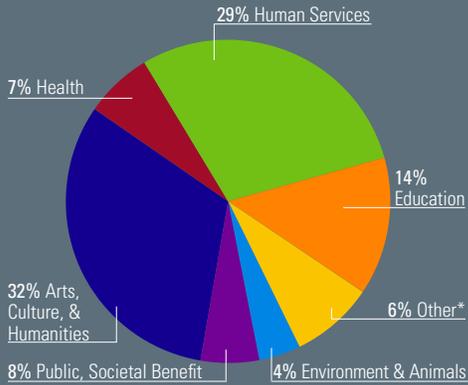
18%
Expect to
operate above
break-even in 2010

80%
Expect more
demand for
services in 2010

89%
Expect 2010
to be as difficult or
more difficult than 2009

Who Responded to the Survey?

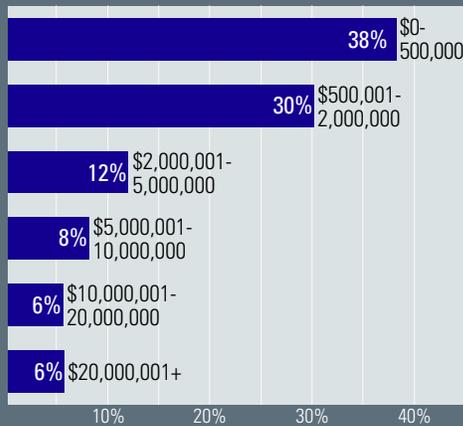
Respondents represent a broad cross-section of the sector, with arts and human services leading.



* Other includes Mutual/Membership Benefit, International/Foreign Affairs, Houses of Worship, and miscellaneous

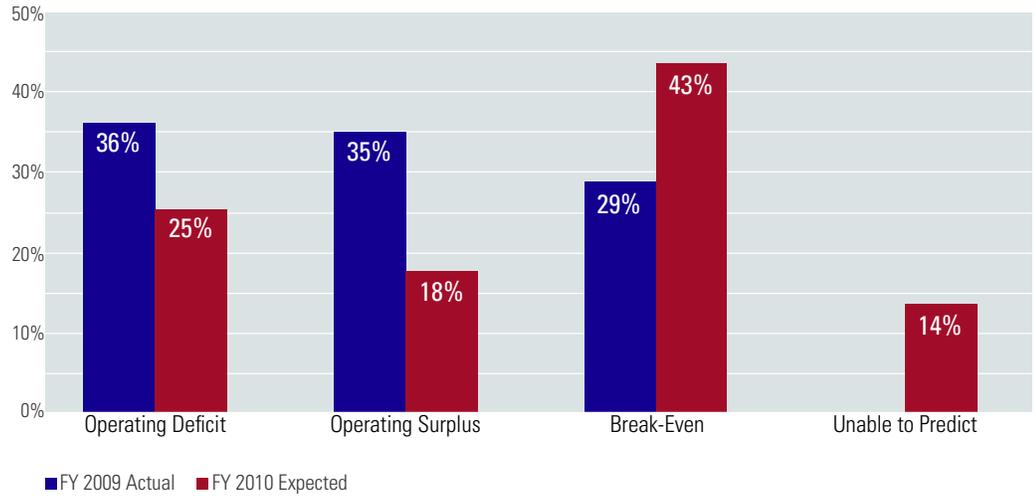
Respondents, By Operating Expenses

68% of respondents were small and mid-sized nonprofits, with annual expenses in 2009 of \$2 million or less.



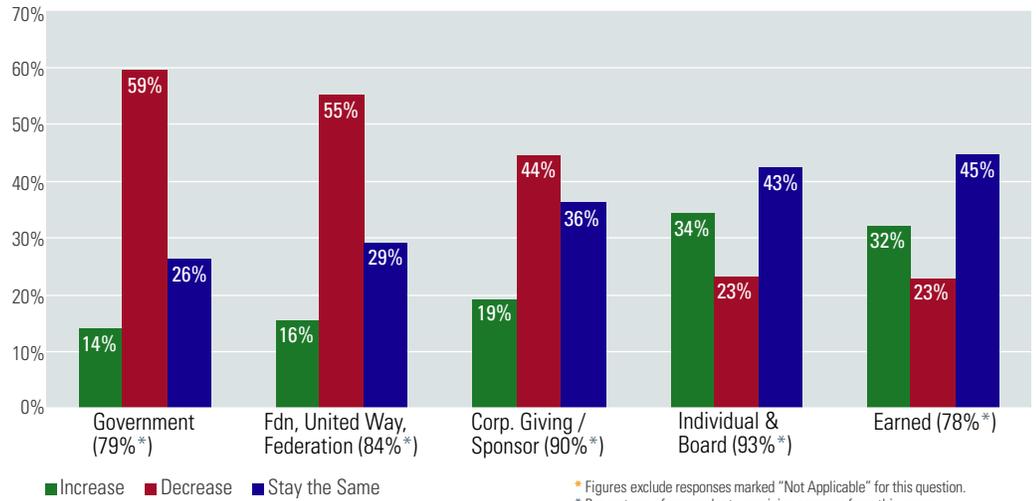
It's Getting Harder for Organizations to Operate Above Break-Even

Year End Results: 2010 Expected vs. 2009 Actual. In last year's survey, 40% reported ending fiscal-year 2008 with a surplus. This year, 35% reported ending fiscal-year 2009 with a surplus; only 18% are predicting a surplus in 2010. For fiscal-year 2008, 32% of respondents ended the year with a deficit; for 2009, 36% had a deficit, while 25% anticipate negative results for this fiscal year, with an additional 14% unable to predict their 2010 results at this time.



Expectations from Government and Foundation/United Way Sources Are Worst

Revenue Expectations from 5 Common Sources*: 2010 Compared to 2009. More than half of respondents expect government and foundation/United Way sources to decrease. Nonprofits expect greater stability in earned revenue and individual & board giving; three-quarters anticipate these streams to rise or stay the same. These numbers only reveal change from 2009 to 2010. We would need to examine trends across a number of years to determine what would be considered sustainable levels of revenue.



* Figures exclude responses marked "Not Applicable" for this question.
* Percentage of respondents receiving revenue from this source.

Lifeline Organizations Brace For More Challenges in 2010

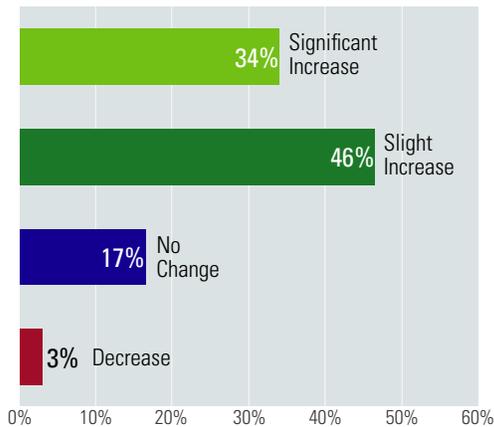
40% of respondents identified themselves as "lifeline" organizations, providing critical services to people in need.

Within this important subset, nonprofits consistently anticipate that there will be a greater need for services in 2010 and are preparing to meet the challenge head on. There were also some trends that varied from the overall results:

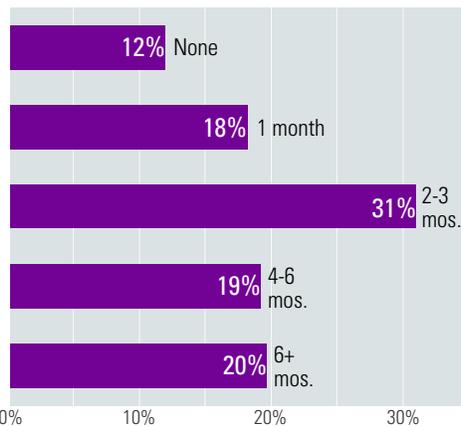
- 68% expect 2010 to be financially more difficult than 2009 for the people they serve. This compares to 54% in the total results.
- 64% don't think they'll be able to keep up with service demand in 2010.
- 56% expect 2010 to be financially more difficult than 2009 for their organizations.
- 39% are planning to add or expand programs in 2010, while 26% anticipate reducing programs—similar to overall trends.

Demand For Services Continues To Rise Change in Year-Over-Year Demand for Services, 2010.

73% experienced an increase in 2008, while 71% did in 2009. 80% anticipate an increase in 2010; 49% expect to be able to fully meet this demand this year.



61% Have Less Than 3 Months of Cash Available. Of the 61%, 12% have no cash available. What constitutes a healthy amount of ready cash varies depending upon an organization's business model and the reliability of its revenue streams.



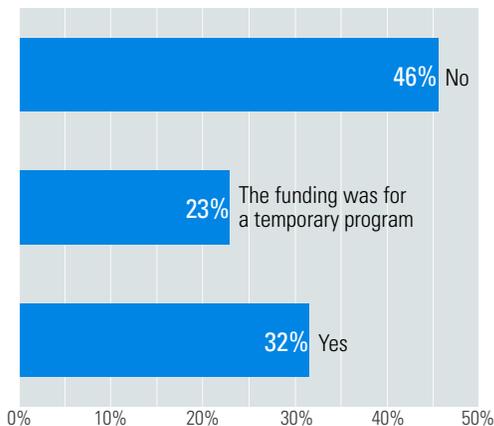
Nonprofits Are Strengthening Their Financial Management

From projections to scenario planning, they see the connection between their finances and ability to deliver on mission and are using these tools to get through our changing times.

Management / Board Reports, Last 6 Months (% of total respondents)	
Budget vs. actual income statement	86%
Balance sheet	82%
Budget projections / scenarios	76%
Monthly cash flow projection	65%
Program economics analysis	29%

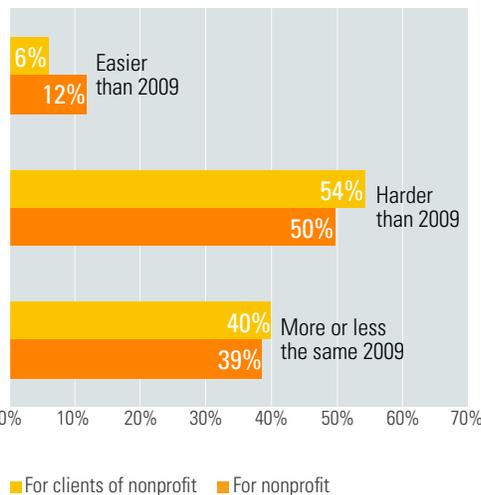
In the Aftermath of Stimulus Funding Replacing Government Stimulus Funding.

26% of survey respondents said their nonprofit has received government stimulus funding. When asked if they expect to be able to replace stimulus funds after they run dry, almost half of these respondents said no.



Half Say 2010 Will Be Tougher Than 2009 Outlook for Nonprofits and Clients.

Half expect 2010 to be even harder than 2009, for the people they serve and their own organizations. When asked how 2009 lined up with their early expectations, 55% noted that it was as difficult as they had anticipated.



Respondents Identified the Most Helpful Technical Assistance Options

While nonprofits are making use of reports and tools to manage current challenges, respondents identified the areas where they felt additional technical assistance would be helpful. Board communication topped the list.

Assistance Needs (% of total respondents)	
Tools to communicate with board	39%
Scenario planning	34%
Program finance analytics	25%
Financial situation analysis	22%
Collaboration or merger analysis	15%
Assistance negotiating with banks / lenders	11%
Debt restructuring	9%

What Were Nonprofits Most Proud of in their Response to Economic Challenges?

"We serve school-age children, many of whom are facing significant food, transportation, clothing challenges in this economic climate. We restructured and streamlined our infrastructure to ensure greater efficiency and free funds to provide significant support for clothing, transportation and food donations to our families."

Education NPO

"We scrutinized every expense in every contract and grant and micromanaged our budget at multiple levels and bid out all major

expenses including benefits and audit. It saved us significantly. We did scenario planning and understood our options but (at the end of the day) we were at the mercy of the economy and government budgetary choices."

Human Services NPO

"While restructuring our revenue model, we discovered opportunities for revision and development of our programs to increase revenues, increase access and increase capacity. What started as an attempt to cut costs, pinch

pennies and squeeze out extra revenues became a mission-fulfilling program development campaign that now promises to bring our services to more people in a way that is more viable...."

Arts, Culture, & Humanities NPO

"There is little to be proud of, other than surviving, and much to grieve."

Public, Societal Benefit NPO

To read more quotes or about the survey, visit us online at nonprofitfinancefund.org.

Creative Responses and Strategies

Nonprofits are acting quickly to keep their services going. Board engagement tops the list for both 2009 and 2010. In 2009, 52% collaborated on programs with another nonprofit. 43% added or expanded programs, as compared to 36% that reduced or cut programs. 18% expanded geographies served, and 39% relied more on volunteers.

In most cases, actions for 2009 are in line with plans for 2010, which indicates that nonprofits are continuing to see the need to respond to the economic challenges. It also might suggest that they have found coping strategies that work for them. In some cases, we're also seeing positive trends: fewer plan to reduce staff salaries, hours, or benefits; and fewer anticipate reducing staff, freezing hires, and reducing or eliminating programs.

Responding to Challenges (% of total respondents)	Planning 2010	Taken 2009
Engage board	60%	60%
Collaborate on programs	50%	52%
Develop contingency budget	46%	44%
Rely on more volunteers	42%	39%
Add / expand programs	38%	43%
Talk with funders	30%	30%
Freeze hires and salaries	26%	48%
Use reserve funds	24%	34%
Reduce / cut programs	23%	36%
Collaborate on expenses	21%	12%
Speed up collection of receivables	20%	19%
Expand areas served	17%	18%
Reduce staff or salaries	14%	35%
Delay vendor payments	13%	23%
Reduce staff hours	11%	26%
Reduce or refinance occupancy costs	12%	14%
Reduce benefits	10%	25%
Change mission or vision	9%	9%
Sell assets	4%	4%
Merge	4%	1%
Restructure / reduce areas served	3%	4%
None: business as usual	5%	3%

Conclusion

Respondents' expectations for 2010 are mixed. While some numbers indicate great concern, others show some optimism. Is this optimism the natural reaction of those who face daunting odds? Or is the sector better-equipped to face a changed and changing economic environment? We believe it's both. Despite the difficult circumstances, nonprofits went to great lengths to avoid scaling back services, calling on both their optimism and savvy to meet this challenge. We also noticed a few other themes of note:

- Several charts reveal that Boards play an important role in managing through economic change, and that nonprofits are looking for ways to make better use of this valuable resource.
- Nonprofits reach out to their peers in times of crisis, collaborating on programs

and administration to better serve their communities. Collaborations far exceed the frequency of institutional mergers.

- Almost half of the 26% that received stimulus funding will need additional support in the coming years to help sustain programs once that funding source disappears.

Nonprofits are extremely self-reliant. Doing more with less, and struggling to balance money with mission, is fundamental to the sector in both good and bad economic times. But there is always a limit. Nonprofit supporters need to continue to step forward, in 2010 and beyond, to ease the burden before we see more vital services shut down.

About Nonprofit Finance Fund®

As one of the nation's leading community development financial institutions (CDFI), Nonprofit Finance Fund (NFF) makes millions of dollars in loans to nonprofits and pushes for fundamental 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 a continuum of financing, consulting, and advocacy services to nonprofits and funders nationwide. Our services are designed to 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 loans and lines of credit for a variety of purposes, we organize financial training workshops, perform business analyses, and customize our services to meet the financial needs of each client. 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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