Illinois Nonprofits:

Building Capacity for the Next Century

A statewide study of
the financial health
of the nonprofit sector

A joint study by the
Illinois Facilities Fund and
Donors Forum of Chicago

Final Report
December 1998

Conducted by
The Stevens Group

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A Word to Our Colleagues

Fall 1998
Dear Colleagues

This Final Report of *Illinois Nonprofits: Building Capacity for the Next Century,* provides in detail the results of a year-long study conducted by the Illinois Facilities Fund and the Donors Forum of Chicago. The survey documents recent financial results, operating issues, key governance and management practices, information about facilities owned and leased by nonprofits, and goals for the future. The study provides a baseline of key financial indicators for more than 4,000 nonprofits throughout Illinois and analyzes factual and attitudinal data that will assist nonprofit managers, private and public funders, board members, civic leaders, and others to plan for change and manage new challenges confronting the nonprofit sector.

In addition, this Final Report analyzes the findings and presents a Capacity-Building Action Plan. The findings illustrate new opportunities for the nonprofit sector, private funders, and government to take direct action in ensuring the viability and financial capacity of Illinois nonprofits. In effect, the Illinois Facilities Fund and the Donors Forum of Chicago present the Action Plans as a "call to arms" for the financial health of the nonprofit sector. Public and private entities, as well as the nonprofits themselves, all have a role and a direct responsibility in building the nonprofit sector's capacity. This Final Report outlines concrete steps toward this end.

The Illinois Facilities Fund and the Donors Forum of Chicago define financial health as a nonprofit's ability to maintain programs without interruption, to meet all financial commitments, and to end each fiscal year with positive net assets. In addition, a financially strong nonprofit has a board of directors that assumes responsibility for the financial stability of the organization and has management that integrates financial and program planning.

Our premise is that the successful nonprofit operates with proactive strategies to define appropriate and balanced relationships with clients and constituents, with the government, with funders, and with the community, using its dedication to its core mission as the driving force. Many nonprofit leaders bring tremendous skill and determination to achieving these ends.

The study's goals are five-fold:

- to provide baseline data on the financial status of a large segment of the nonprofit sector
- to inform nonprofit managers and leaders about financial trends within their fields
- to identify key areas for improvement in nonprofit financial practices such as financial planning, capital investment programs and management
- to provide private and public funders with accurate knowledge of the financial status and needs of nonprofits
- to support public policy on behalf of the nonprofit sector through accurate, timely information.

We hope this report provides the nonprofit sector an opportunity to assess its own financial strengths and weaknesses and plan for the measures necessary to sustain its capacity. The information has special relevance to government and private funders as well. Both public and private funders historically have emphasized a nonprofit's programs and services over financial stability in assessing success. We hope these findings will encourage both private funders and government to include financial benchmarks and management standards in their evaluation of nonprofits.

The IFF and the Donors Forum are committed to providing leadership to the nonprofit sector as the need to improve management and financial planning increases. This Action Plan for building nonprofit capacity issues a challenge to nonprofits to take direct steps toward improving their financial condition and ensuring their long-term viability. The Action Plan also challenges public and private funders to make direct investments in building the nonprofit sector's capacity. Together these action steps provide a framework for sustaining the sector's ability to continue meeting its mission.

Finally, the nonprofit's role in society is much more than the provision of services, the promotion of better housing, or the protection of the environment. Nonprofits are the vehicles through which all citizens connect with and express many of their beliefs about what American society should be. As a result, a strong nonprofit sector, measured here according to its financial condition, is essential to maintaining society's quality of life.

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An Overview of the Nonprofit Sector in Illinois

Common Characteristics of Nonprofits

With more than 1.14 million organizations comprising this sector in the United States, nonprofits represent tremendous diversity in size, missions, and scope of activities. Nonetheless, the sector shares several common characteristics. According to Lester M. Salamon, professor at The Johns Hopkins University and a leading authority on the nonprofit sector, nonprofits share six defining characteristics. Nonprofits are:

- formally constituted;
- private (i.e., non-government);
- not profit-distributing;
- self-governing;
- voluntary;
- of public benefit.

What does these characteristics mean to a nonprofit's operations? Although a nonprofit may raise money and may also earn a surplus, there are no individual owners or stockholders who benefit from any surplus. All Funds may be used by the nonprofit only to further its mission. Nonprofits are exempt from taxes on their assets and on income from their mission-related activities.

Although they may have paid staff members, most also involve volunteers. All are led by a volunteer Board of Directors that is responsible for ensuring that the nonprofit fulfills its mission and serves the public ethically and effectively.

The fact that nonprofits are *required* to raise additional funds is often overlooked in discussions about the sector. This is long-standing precedent established by the Internal Revenue Service to continually re-affirm the nonprofit's value and support in the community.

Essential to Our Democracy

The nonprofit sector has played an historic role in promoting values of democracy and pluralism. Nonprofits convene debate and function as venues for engagement about social issues. They help build consensus about social change. They encourage and give voice to individual initiative for the public good.

The roots of the nonprofit sector in America precede our government. Lacking formal structures, early Americans often organized to tackle problems and meet needs in their communities. Once government structures were established, these groups continued to help government meet the needs of citizens. This forged a powerful partnership between the nonprofit sector and all levels of government.

The notion that nonprofit organizations are worthy of tax exemption also has historical roots. When federal income taxes were established in the 20th century, nonprofits were excluded. The chief rationale for this was and remains that nonprofits often provide services that government otherwise might be required to offer, but perhaps could not provide as efficiently. Even in offering services that aren't required by the government, nonprofits provide a valuable public benefit.

The nonprofit sector plays a significant role in our economy by producing and providing public goods and services that are not (and in many cases cannot be) delivered within the framework of the market system. It employs seven percent of the American worksforce and has aggregate revenues of $621 billion. [1]

The Nonprofit Sector in Illinois [2]

Size and scope

- When most people refer to nonprofits, they are usually speaking of organizations that are exempt under section 501(c)(3) of the I.R.S. tax code.

- There are 26,721 organizations in Illinois exempt under section 501(c)(3). This amounts to one nonprofit for every 445 people in the state.

- Human service organizations constitute the largest portion of public charities (32.9%), followed by health (17.3%), education (15.7%), arts (10.9%), public/social benefit (9.3%), religious (5.3%), environmental (2.3%), and international (0.8%) organizations.

- The total combined revenues of Illinois public charities amount to over $20 billion.

- If they were one company, public charities—based on their combined revenue—would be the fifth largest company in Chicago, smaller than Allstate at $22.3 billion but larger than the Sara Lee Corporation at $18.6 billion.

Giving

- Foundations in Illinois gave a total of $888 million in grants in 1996.

- In 1995, individuals contributed $4.6 billion to 501(c)(3) nonprofits. The U. S. total was $98.6 billion.

- The average contribution per household in Illinois was $1,056—compared to a national average of $996.

- The average contribution on each itemized tax return was $2,446—close to the national average.

1 Source: *The Nonprofits of Greater Chicago: Giving Voice to Your Heart,* the 1998 public education campaign of the Donors Forum of Chicago and The Independent Sector.
2 Ibid.

Recent Literature Research and Commentary on the Nonprofit Sector

Illinois Nonprofits: Building Capacity for the Next Century joins a growing body of research, literature and debate on the capacity of the nonprofit sector. The prevalence of dialogue on the capacity needs of the nonprofit sector underscores the need for accurate and timely data on the sector's financial and organizational challenges. Several related projects lend further evidence to conclusions and recommendations put forth in this study.

In her latest book, *High Performance Nonprofits: Managing Upstream for Greater Impact,* Christine Letts, Executive Director of Harvard University's Hauser Center for Nonprofit Organizations, writes that an organization's capacity is often overlooked but is essential to a nonprofit's success:

"Many see investment in the infrastructure of nonprofit organizations as overhead—the connotation that these are deadweight costs that take money away from program beneficiaries. We've got to stop thinking like this." [3]

Letts further states that recent discussions about the current "venture capital" model of philanthropy has the potential to address many of the nonprofit sector's capacity needs: "The venture capital model urges a longer-range approach to grantmaking, gives priority to capacity-building and calls for greater interaction between donors and donees . . . By encouraging nonprofits to approach funders with requests for capacity building grants, the venture capital model addresses one important aspect of the nonprofit sector's needs. Ultimately, the current emphasis on project funding is flawed not just because it detracts from *building capacity,* but rather because it shuts down *authentic conversations about needs.*" [4]

Kirsten Grønbjerg also addresses many of the issues related to nonprofit financial needs in her recent paper, *How Philanthropic Funders View Funding Relationships: Strategic Implications for Nonprofit Human Service Managers.* Grønbjerg analyzed patterns, structures, and concerns among various types of grantmaking entities. She reported that while all types of funders expressed concern about being expected to fill deficits in nonprofit budgets as a result of reduced government support, few were planning to make major changes in the nature of their support to increase nonprofit capacity. Grønbjerg's analysis provides valuable information on the relationship between nonprofits and funders, from which numerous capacity-building implications can be drawn.

3 Letts, Christine, Allen Grossman and William Ryan. *High Performance Nonprofits: Managing Upstream for Greater Impact.* John Wiley and Sons: 1998. Quoted from Foundation News and Commentary, August 1998.
4 Ibid.
5 La Piana, David. *Beyond Collaboration: Strategic Restructuring of Nonprofit Organizations.* The James Irvine Foundation. 1998.

Another recent work published by the James Irvine Foundation also highlights the challenges and responses of nonprofits in the current environment. *Beyond Collaboration: Strategic Restructuring of Nonprofit Organizations* by David La Piana discusses the potential role foundations can play as nonprofits undergo fundamental changes in the way they operate.

"Many nonprofits are considering a fundamental change in organizational structure because of economic pressure such as increased competition from business, government, and other nonprofits; a shrinking supply of experienced leaders willing to remain in the sector for inadequate wages; and increasingly urgent and complex community needs . . .But nonprofit leaders need assistance as they undertake significant organizational change." [5]

Many private funders have begun to dialogue about the capacity needs of the nonprofit sector and how to best respond. A new national affinity group of the Council on Foundations, called Grantmakers for Effective Organizations, held its inaugural conference in October 1998. GEO's purpose is to promote learning and dialogue about the effectiveness of nonprofit organizations; the wide range of strategies for accomplishing organization-building; and the constructive and catalytic roles funders can play in encouraging and supporting organizational effectiveness among nonprofits. [6]

Other entities such as the Center on Nonprofits and Philanthropy of the Urban Institute also have undertaken studies of specific types of nonprofits that point to capacity-building needs. For instance, in a recent survey of religious congregations in Washington D.C. that provide community or social services, the study concluded that "The majority of survey respondents believe they do not have the facilities, staff, or funds to satisfy an increase in demand for services."[7] This and similar studies point to the growing discussion of capacity-building needs among nonprofits.

Recognition of the need for such works has grown during the last five years. Many scholars and practitioners have realized the importance of accurate financial data and analysis of the nonprofit sector. For instance, *Measuring Financial Health in the 1990s* by Susan Stevens encourages nonprofits to examine more closely their financial position and vitality and establishes criteria for assessing health. The Urban Institute's Nonprofit Sector Research Project published a series of works addressing the impact of government retrenchment on nonprofits in various cities (San Francisco, Chicago, Pittsburgh, Phoenix, New York, and the state of Rhode Island). A growing number of statewide studies of the nonprofit sector by various philanthropic and academic entities will provide valuable data to support much of the current dialogue. The Nonprofit Almanac of the Independent Sector explicitly states the need for more data on the financial health on the nonprofit sector. Such works underscore the growing attention to the financial stability of the nonprofit sector as it pertains to its capacity and strength to meet new challenges. Illinois Nonprofits: Building Capacity for the Next Century meets a timely need and fills a significant void in current literature and resources.

The Illinois Facilities Fund and the Donors Forum of Chicago encourage the discussions about nonprofit capacity and financial health to increase throughout the sector itself and other institutions that share responsibility for the sector, including corporate and philanthropic funders and government.

6 Grantmakers for Effective Organizations, Proposed By-Laws.

7 Printz, Tobi Jennifer. "Faith-Based Service Providers in the Nation's Capital: Can They Do More?" Charting Civil Society, a series by the Center on Nonprofits and Philanthropy of the Urban Institute. 1998.

Key Findings and Action Plans

This section summarizes key findings and presents A Capacity-Building Action Plan for nonprofits, government entities, and the private sector to respond to each of the major areas. All of the Capacity-Building Action Plans emphasize a fundamental element of the original definition of financial health: careful integration of financial and program planning as the key to long-term success.

Key Finding 1: A Fragile Financial Cycle

Pressure to Do More With Less
Major public policy shifts in government programs have created the double-edged effect of creating greater demand for the services of nonprofits while at the same time reducing the level of public support to carry out such efforts. Examples of such policy shifts include welfare reform, devolution, and managed care. This has resulted in a shortage of income to meet expenses, potentially creating a precarious operating environment for nonprofits.

Nonprofits face tremendous pressure to expand services and programs, but they are not financially equipped to do so, according to the results of the study. Survey respondents overwhelmingly cite growing demand for services without the resources to support program growth as the single most significant challenge they currently face (53 percent of respondents; 235 organizations). Similarly, 33 percent of respondents cite a shortage of income to meet expenses, closely followed by shrinking public money to support programs (29 percent). Inability to hire or retain qualified and motivated staff also present serious challenges to 27 percent of respondents (120 organizations). The financial condition of the survey respondents underscores these pressures and points to the critical need for building capacity as the key to long-term success. All other significant results in the study point directly to this challenge.

Financial margins are shrinking
While survey respondents collectively experienced a modest increase in median income (5.3 percent) from 1995-96 to 1996-97, the surpluses nonprofits are achieving are decreasing as a percent of revenue. (See Table 11 for a detailed comparison of surpluses and deficits.) Median surpluses range between 0.8 percent to 2.5 percent in 1996-97, with an overall median surplus of 1.3 percent of income, compared to a range between 0.3 and 2.7 and an overall median of 1.4 percent for 1995-96. Organizations in Chicago and suburban Chicago experienced a decrease in operating margins, as did arts organizations and health organizations. This implies that although median incomes for certain organizations may have increased, expenses have increased at a faster pace, pointing once again to the pressure to increase services and programs.

Not only are the operating margins of nonprofits decreasing, but the organizations are using the increasingly slim surpluses (if, indeed, they have surpluses—more than half had a deficit in the last three years) to supplement regular operating support. More than one-third of respondents with surpluses keep the funds in general operating accounts to cover cash flow problems. Only one-fifth of respondents with surpluses in the last three years used it to build a reserve. Operating margins are too slim to be used as little more than survival buffers.

Deficits and cash flow problems plague nonprofits
Income insufficient to meet expenses. The occurrence of deficits among respondents provides evidence for the shortage of income to meet expenses. More than half of all respondents had a deficit in the last three years, while 14 percent (60 organizations) had a deficit in each of the last three years. In addition to deficits, respondents also experience cash flow problems with regular frequency. More than three-fourths of respondents (337 organizations) cite cash flow problems throughout the year. Factors contributing to cash flow problems include (in order of frequency) delays in government payments, normal business cycles, fundraising campaigns that did not meet expected goals, and unanticipated emergency expenses.

Income uncertain. In related findings, respondents indicate that they enter each new fiscal year with some level of uncertainty. Respondents report that only 53 percent of their income is fully confirmed by the start of the new fiscal year. This contributes to the occurrence of deficits and cash flow problems. While roughly one-third of their income may be "expected or reasonably certain," the current environment still leaves this portion of income unpredictable. In other words, nonprofits operate unsure of their ability to meet expenses.

Reserves negligible. Finally, these circumstances together make it difficult, if not impossible, for nonprofits to build reserves to stabilize their financial condition. Nearly two-thirds of nonprofits indicate having a financial reserve to meet projected shortfalls. However, one out of three of these nonprofits has a reserve equal to just one month's operating expenses or less. Only 82 respondents report an operating reserve equal to more than four months' operating expenses. The relationship between cash flow problems, deficits, and size of reserves indicates that these marginal reserves may help a nonprofit weather temporary cash shortfalls, but they provide little or no shelter from the larger challenges nonprofits experience.

Short-term financial solutions intensify problems. Decreasing operating margins, the occurrence of deficits and cash flow problems, negligible reserves, and high degree of uncertainty in each fiscal year can lead to poor financial practices. These practices, in turn, only exacerbate the already vulnerable financial condition of nonprofits.

Respondents report using the same strategies to address cash flow problems that they use to address deficits, indicating little distinction between the two in terms of financial practice. Strategies to handle deficits include (in order of frequency) using prior years' reserves; cutting expenses (including laying off staff); increasing fundraising; borrowing money; and bringing the deficit forward into the next year's budget. Strategies cited for cash flow problems include (in order of frequency) using cash reserves, cutting expenses, transferring cash from other funds, borrowing money, and delaying payment of bills. Handling deficits and cash flow problems with the same financial practices blurs the distinction between the two, making it difficult for the nonprofit to identify the core problems that create them.

More than 70 percent of respondents that have borrowed funds in the last year did so in order to stabilize cash flow, which indicates that cash flow borrowing has become a commonly accepted practice. However, this strategy increases costs due to interest and administrative expenses. This, in turn, creates a cycle that can lead to greater deficits.

Slightly more than one-third of respondents that undertook a facilities-related project in the last year used operating cash to pay for these projects (106 organizations). Use of operating funds for capital expenses can later lead to cash flow problems or deficits for regular programs and services. Nonprofits then must borrow cash to fill the gap, continuing the cycle of reliance on short-term strategies.

A Capacity-Building Action Plan

The circumstances behind these findings together create a fragile financial cycle that is difficult to overcome for organizations of any size. Although the survey respondents exhibit varying degrees of financial sophistication, all nonprofits can benefit from taking steps to break this cycle and improve their overall condition. Surviving this precarious financial cycle will require different strategies for nonprofits of different sizes, fields of service and locations. However, the necessary steps for success for most nonprofits can generally be classified under increased financial education and improved financial planning and cash management.

Because the project sponsors firmly believe that each nonprofit must determine for itself the appropriate goals and benchmarks for its own financial health, this Capacity-Building Action Plan does not prescribe a certain set of financial measurements or ratios. Instead, the Action Plan instructs nonprofit Boards and managers to undergo the process of determining which measurements are most appropriate for each nonprofit and to set goals accordingly. This is an important component of a nonprofit's own financial education. Similarly, private funders and government entities are not prescribed a pre-determined set of measurements to use in their evaluation of nonprofits, but rather are encouraged to better understand the financial circumstances that confront each nonprofit and to determine the appropriate measurements used to evaluate the organization.

Nonprofit Managers and Boards of Directors

Increased financial education and improved financial planning will be the key to overcoming this vulnerable cycle. This will assist nonprofits in tracking and controlling expenses, improving reserves, and increasing the amount of secured income at the start of each fiscal year. Nonprofit directors and Boards can take the following direct action steps toward improving their financial health.

Financial education: Board finance committees are urged to undertake the following direct action steps.

1. Engage in rigorous analysis of the financial trends of the organization.
2. Set financial performance benchmarks. Each Board should establish critical benchmarks against which it will assess the health of the organization.
3. Understand the key ratios (calculated from the Statement of Position and Statement of Activities) that illustrate the critical financial relationships that determine the nonprofit's viability—in effect, the nonprofit's ability to meet its mission. Each Board should set goals for the relationships among various financial indicators. Examples include:

    - Types of expenses, by percentage
    - Sources of revenues, by percentage
    - Expense coverage—the percentage of operating expenses that are covered by confirmed revenue
    - Liquidity—the number of months of operating cash that are covered by cash reserves
    - Accounts Receivable ratio in days

4. Evaluate the long-term impact of major financial decisions, such as capital purchases or lines of credit.
5. Document the cost of cash flow borrowing, which increases interest expense and drains the operating budget. Overcoming this long-term problem should become a financial practice priority.
6. Develop a system and process for routinely reviewing financial statements and monitoring the key benchmarks established.
7. Understand how the nonprofit's financial audit portrays its condition. Nonprofit audits, especially in light of new FASB/GAAP requirements, are important communication tools about the organization's capacity. Nonprofits must be intentional about what the audit conveys.

Harvard University professor Regina Herzlinger underscores this last point in her book, *Financial Accounting and Managerial Control for Nonprofit Organizations:*

> *"Financial statements should enable readers to evaluate the organization's financial performance. Financial analysis is the process of using information provided by the financial statements to calculate the financial ratios and other measures that enable such judgment. Financial analysis enables the user to answer four fundamental questions:*
>
> 1. *Are the organization's goals consistent with the financial resources it needs to finance them?*
> 2. *Is the organization maintaining intergenerational equity?*
> 3. *Is there an appropriate match between the sources of the resources and the uses to which they are put?*
> 4. *Are present resources sustainable?"*[8]

Question number 2 addresses capacity-building and the creation of a permanent organization through the building of net assets. Herzlinger explains by stating that "every dollar used now represents a dollar of services foregone by future generations."

Financial planning: Boards of directors and management together must integrate financial and program planning and set goals for building reserves to avoid month-to-month operations. The financial benchmarks established above provide a framework and should be used as a planning tool for all aspects of the nonprofit: staffing, programs, growth, and capital investments. Practical steps toward this end should include:

1. Short- and long-term program financial planning at regular intervals
2. An objective analysis of the full cost of each program
3. Established goals for building sufficient reserves
4. Contingency plans for cutting expenses as needed
5. Cash management policies

8 Herzlinger, Rebecca and Denise Nitterhouse. *Financial Accounting and Managerial Control for Nonprofit Organizations.* South-Western Publishing Co. Cincinnati. 1994.

Financial policies and procedures: Increased financial education and planning should lead the nonprofit to develop financial policies and procedures that will maintain the organization's capacity. Boards and finance committees should have written policies on the following:

1. Cash reserves
2. Cash flow borrowing
3. Key ratios to be achieved and maintained. This may result in difficult decisions about program or service cuts.
4. The appropriate use of credit. As a routine matter, credit should be used for financing capital or for program growth that will ultimately help the nonprofit improve its overall capacity and increase net assets. Borrowing should be viewed as a means to equip nonprofits to achieve a new level of independence and financial control, not as a means to sustain day-to-day operations.

Private funders

Foundation and corporate funders are encouraged to fund capacity-building efforts that will help nonprofits overcome this fragile financial cycle. This will demonstrate the value of supporting organizations rather than simply programs, thereby building a nonprofit infrastructure.

Private funders should increase their knowledge about how nonprofits work as businesses. Increased financial education about the details of nonprofit financial statements will help funders understand the challenges nonprofits face. Financial education should be planned for foundation staff to help them better understand the needs of nonprofits as well as the goals of capacity-building funding. This might include learning how to analyze a nonprofit's financial ratios or understanding the complexity of revenue diversity for different nonprofit fields.

Financial education should result in a distinct understanding of the subtle challenges and unique circumstances that affect each nonprofit field. Rather than apply a uniform standard to all nonprofits, financial education should be tailored to the specific fields supported by the funder. Because different fields have different needs, funders should understand how to read financial statements for the specific nonprofit fields they support. As a result of this, funders should determine the most appropriate ways to assess the nonprofit's balance sheet in terms of such indicators as cash, debt service, and fixed assets. These indicators should be examined in the context of the whole organization, not as individual measures of the need for support. This type of education will allow foundations to examine their approach to operating support grants and capital funds by recognizing the difficulty of separating one financial issue from another. This study recommends careful re-consideration of existing funding policies, attitudes, and practices related to endowments, reserves, capital investment, and general operating support.

Finally, the grantmaking practices of funders should encourage and support healthy financial practices among nonprofits. This will communicate the expectation and assumption that program and financial planning must be integrated in order to achieve success. Funders are encouraged to use the nonprofit's financial condition and practices as an evaluation tool and as a measure of its success and capacity to meet its proposed goals.

Government

Government agencies have a clear interest in encouraging and supporting an efficient and cost-effective nonprofit sector. Many nonprofits under contract to state and local government have taken steps to meet the public goal of reducing the size of government and providing more services for fewer dollars. Government should now invest in both quality management and improved service delivery.

Furthermore, government should recognize its role in contributing to this fragile financial cycle through delayed payments or administrative requirements that drain time and expenses for nonprofits. This must be in the context of an evaluation of the true cost of financial policies and practices.

Government policies should encourage and support healthy financial practices on the part of nonprofits. Many current policies erode sound financial practices among nonprofits. For instance, nonprofits under contract to state agencies usually are required to budget to zero each fiscal year. This prohibits nonprofits from being able to achieve any type of long-term security beyond year-to-year funding.

Like private funders, government entities should recognize the unique financial needs and circumstances for specific fields of service. The funding mechanisms should reflect the unique and historic partnership between nonprofits and government, and these should be tailored to the specific needs of each field of service.

As the business relationship between nonprofits and government changes, greater attention to financial health and capacity is essential to helping both sectors meet their goals. Addressing the financial needs and long-term capacity strategies of nonprofits requires a forum for communication and mutual interaction between nonprofits and government entities.

Each government agency that purchases services through nonprofits should convene a task force of representatives from the agency and nonprofits from the specific industry. This task force is charged with identifying areas in which funding and administrative requirements can be improved to encourage capacity-building efforts among nonprofits. This is the first step in shifting the historic relationship between government and nonprofits from a strictly "purchase of service" arrangement to one of genuine partnership and capacity. This is critical to overcoming the fragile financial cycle.

Government agencies should work with providers in planning for major changes in policy, funding or administration that will affect nonprofits. In many cases, government knows of pending changes and even their potential financial effect well in advance of the implementation of these changes. Because of its dependence on nonprofits for the provision of programs and services, government has a direct responsibility to work with providers in preparing for these changes and maintaining their capacity.

Although many government agencies have existing mechanisms for communication with providers through task forces, advisory councils, or commissions, this action plan calls for a more intentional focus on financial health and capacity. Government agencies may use these various existing forums as vehicles to address this issue if appropriate. Or, they should convene a separate group solely dedicated to this topic depending on the field of service, specific trends or challenges, or other issues unique to each funding relationship.

Key Finding #2: Changing Sources of Support

Nonprofits face significant changes in their traditional sources of support. These shifts both affect and are affected by the changing relationship between nonprofits and the public and private sectors. In addition, these shifts will require nonprofits to alter the way they do business, making planning more difficult but all the more critical.

Government shifts create new financial pressures
Government largest source of revenue, but decreasing. Government grants and contracts represent the single largest source of income among respondents collectively, accounting for 50.3 percent of all sources. This is followed by earned income at 25.0 percent; individual donations and memberships at 9.8 percent; foundation and corporate grants at 6.8 percent; fundraisers and events at 3.6 percent; United Ways and other federated funds at 3.0 percent; charitable gambling at 0.2 percent; and miscellaneous sources at 1.3 percent, including in-kind contributions. (See Table 9 for a comparison of government funding levels across different organizations .)

Forty percent of respondents (174 organizations) identify government funding cuts for their specific industry as the single most important government policy change that will affect their financial condition. This is followed by the state reorganization of human services (16 percent, 71 organizations); welfare reform (12 percent, 53 organizations); and managed care (10 percent, 44 organizations). Other cited policies include changes related to education; charitable giving; and the Community Reinvestment Act.

New revenue mix anticipated. Forty percent of respondents (178 organizations) expect their income mix to change substantially by the year 2000. The most frequently cited changes anticipated include an increase in earned income; a decrease in government funding; and an increase in foundation grants and private contributions. Health care organizations are most likely to predict substantial income changes (47.7 percent) compared with nonprofits in other fields of service. Organizations in Chicago and larger organizations also anticipate major changes in sources of income.

Government revenue has mixed impact. Respondents illustrate a direct relationship between government funding (primarily through contracts and purchase of services) and certainty of income. Those respondents with higher levels of government funding report that a significantly larger proportion of their budget is fully confirmed as they enter each new fiscal year compared to agencies with little or no reliance on government funding. In cases where government funds represent 75 percent or more of their budget, for instance, respondents report that 65 percent of their income is confirmed and 29 percent is reasonably certain at the start of each year, compared to organizations that receive less than 25 percent of their income from the government, who report that only 18 percent of their income is confirmed while 71 percent is reasonably certain.

However, respondents also exhibit a direct relationship between level of government funding and the presence of cash flow problems created by delayed payments from government. Therefore, while government funding provides the financial security to enable hiring staff and securing space, it does not guarantee revenue stability throughout the year and in fact often creates cash flow problems.

Private fundraising critical to financial health
Historically, many nonprofits that receive government funds have raised private charitable funds to supplement government dollars in order to deliver services appropriately. If nonprofits will not reduce costs or service volume, additional private funds must be raised.

Development directors increase confidence about financial health. One-third of respondents have a development director on staff. These nonprofits have median incomes and staff sizes that are slightly more than twice the size of the rest of the sample. While respondents with development directors experience deficits and cash flow problems with the same frequency as those without development directors, they benefit from fundraising efforts in other ways. For instance, more respondents with development directors have a cash reserve in place. In addition, these organizations have a smaller percentage of their income that is uncertain or unidentified at the start of each fiscal year. A larger portion of organizations with development directors perceive themselves to be financially healthy.

Development directors diversify funding mix. Other than organization size, the diversity of funding sources illustrates the most significant distinction between organizations with development directors and those without. Organizations with development directors receive more of their income from earned revenues (41.6 percent) than from government grants or contracts (37.7 percent). This contrasts with 25.0 percent of income from earned revenue and 50.3 percent of income from government for the rest of the sample. Therefore, organizations with development directors exhibit the revenue diversification that the rest of the sample reported as needing to achieve.

Organizations with and without development directors report roughly equal percentages of funds from individual donations (7.6 percent to 9.8 percent) and foundation and corporate grants (6.3 percent to 6.8 percent). Respondents report that they expect increased foundation and corporate grants to be part of their new revenue mix in the years to come.

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Nonprofit Managers and Boards of Directors
The need to increase private fundraising is critical to maintain or expand the services that many respondents see as a key component of their organizational vision for the future. By expressing the need to increase earned income as a revenue source, respondents demonstrate an important first step in wanting to take control of their own resources. They recognize their own responsibility in ensuring their future financial viability.

Nonprofits must take the following direct action steps toward diversifying their revenue:

1. Assess the type of assistance the nonprofit needs in order to diversify its revenue. Prioritize this list in terms of short- and long-term value. Finally, make direct investments in building capacity to diversify revenue sources according to the nonprofit's prioritized needs.
2. Implement adequate fundraising mechanisms to not just weather but in fact thrive in this changing environment. This may occur in the form of obtaining technical assistance, expanding existing fundraising programs and strategies, or securing a development director, depending on the size of the organization and the field of service.

3 Recognize that nonprofits require a wide range of strategies to take control of their financial futures, and that not all nonprofits will need the same level or type of assistance. Each nonprofit must determine an appropriate course of action for its goals. Once again, this underscores the importance of integrating financial and program planning.
4 Find ways to increase the revenue from individuals. This applies to all nonprofits, regardless of field of service. Individuals gave a combined total of $109.2 billion in 1997, an increase of 7 percent over 1996. This represents 76 percent of all philanthropic dollars.[9] In Illinois, individuals contributed $4.6 billion to 501(c)(3) nonprofits in 1995. During a period of strong economic growth, individuals have the ability to constitute a larger portion of the nonprofit sector's income and have historically been a significant source of support to the sector. This should be an increasingly important part of the nonprofit sector's strategy to diversify its funding sources.

Improved financial planning plays a critical role in responding to the changing sources of support as well. Nonprofit management and boards must take the following steps with respect to their financial planning:

1 Undertake a rigorous revenue analysis on a routine basis. This must be done in relation to mission, internal needs and the external environment.
2 Be able to trace the revenue back to its original source, whether public or private, in order to assess the risk of potential changes. Much of a nonprofit's revenue comes through various levels of public and private entities that are directly or indirectly affected by the economy, tax policy or other fiscal and legislative developments.
3 Determine an acceptable level of dependence on each funding source and set goals for diversifying revenue.
4 Develop a plan of action under different revenue scenarios—both for growth and for declines in revenue. This will require a total integration of financial and program planning.
5 Use the revenue analysis as a tool in establishing a new budget for the next fiscal year. The budgeting process must balance committed revenue, potential revenue, the external environment, financial goals and policies, desired and realistic growth, prior year's results, staffing decisions, and the needs of clients.

The revenue analysis should occur as part of an overall risk management process—an exercise in assessing the potential threats to an organization's mission, operations and viability. All risks are best ameliorated through excellent management, clear lines of authority, good communication with employees and clients, and high standards of operation. Revenue risk analysis incorporates the above five components and requires the difficult and sensitive discussions of "worst case scenarios" involving both staff and programs.

Private funders

Both public and private funders should take leadership and consider ways to equip the nonprofits with the skills and resources necessary to achieve self-sufficiency goals. Foundations and other private funders are encouraged to invest in nonprofit infrastructure, particularly infrastructure that enables nonprofits to strengthen resource development programs and plan for more predictable fundraising outcomes.

9 Giving USA 1998.

These funders also should seek ways to better understand the effect of development directors on strengthening an organization's capacity over time. This should lead to strategies to increase the leverage of these positions. Supporting an organization's capacity to sustain itself and even thrive in the midst of changes in traditional sources of support must be viewed as a long-term investment that ultimately will yield better results for the funders as well as the nonprofits. Toward this end, funders should take the following direct action steps:

1 Understand that fundraising skills are the basis for increased strength and independence.
2 Support requests for funds for development directors or for fundraising programs.
3 Support requests for technical assistance funds related to improving the organization's financial health.
4 Support organizational development and management activities that will help the nonprofit build its capacity.

Each funder's evaluation of a grantee or a potential grantee should include an assessment of the specific investments that will be needed to sustain each organization's capacity.

Many funders have already begun to take critical steps in this direction. Along with this funding approach, some grantmakers have implemented outcome-based evaluation criteria. While outcome-based grantmaking is becoming more standard, it requires enormous involvement and understanding of the nonprofit's long-range goals. Cooperation and mutual agreement on goals and measures between the nonprofit and the grantmaker is the key to successful capacity investments. Funders should work with their grantees to develop appropriate outcome-based evaluation criteria and set goals for their capacity-building investments.

Government

Government, as the largest single source of funds through service contracts, must recognize the need for the sector to diversify its income and can play a key role in encouraging this independence. Targeting funds periodically to special programs and creating incentives for the flexible use of some funds would strengthen this partnership during times of change.

At a time when government resources are shrinking, government needs to explore a new relationship with the nonprofit sector. Government funds should be used as a resource to leverage funds from other entities in the private sector. This allows the nonprofits to use public funds as a capacity-building resource rather than for the maintenance of programs and services. The nonprofit/government task force (or other existing forum) described in the previous Capacity-Building Action Plan is also charged with exploring ways to better use government dollars as a means to invest in nonprofit capacity even while purchasing mandated services. This must be viewed as part of the ongoing and long-term need to improve the relationship between government and nonprofits, especially in light of tenuous funding circumstances.

Key Finding #3: Facilities Pressure

Facilities are important to the effectiveness of most nonprofit agencies. Responses to facilities-related questions provide clear evidence of the growth pressures nonprofits currently face and underscore the lack of resources to achieve all their goals.

Facilities projects illustrate growth pressures
Respondents report high levels of recent and planned facility-related activity. Sixty-five percent of respondents carried out some facility-related project in the last year, and more than half (236 organizations) report plans to undertake some facility-related project (ranging from cosmetic improvements to repairs and replacements) within the next 12 months. Combined estimated costs for these future projects total $35.7 million (estimates reported by respondents). More significantly, 31 percent of respondents report plans to undertake major capital projects involving property acquisition, major renovations, or new construction. Combined costs for all these major facilities projects in the sample total $269 million. Respondents cite the need to expand current programs or undertake new services and activities as the primary reason for these activities.

Ownership and condition of facilities related to revenues
Larger organizations are more likely to own space. Fewer than one-third of organizations with annual revenues under $1,000,000 own their space, while more than two-thirds of organizations larger than $1,000,000 own their space. A slightly larger percentage of respondents that own their facilities report their space to be in "excellent" or "good" condition than those that do not own their facilities (74 percent compared to 69 percent). Conversely, a larger percentage of those that do not own their facilities report their space to be "barely acceptable" or "unacceptable" (10.5 percent compared to 7.8 percent). Similarly, a larger percentage of respondents that own their facilities report themselves to be financially healthy than those that do not own their facilities (40 percent compared to 33 percent).

Resources for facilities still lacking
Despite the level of planned facilities projects, there is no indication that respondents currently have the resources to execute their plans. Public and private resources to fund capital projects are scarce. Many nonprofits do not have access to capital financing because of the financial conditions documented throughout this report. This environment underscores the nonprofits' pressures to grow without the resources to support such growth.

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Nonprofit Managers and Boards of Directors
A nonprofit's financial health has a direct effect on its ability to achieve these reported facilities projects. The condition of a nonprofit's facility plays a critical role in the delivery of services and programs. Therefore, the status and condition of facilities must be considered an integral component of financial health. Nonprofits must integrate program and financial planning to determine their capital investment needs and include capital planning as part of their overall financial management strategy. It is clear that ownership is a means of increasing their independence and taking control of their own resources.

Historically, nonprofits have invested little in their facilities, because few resources were available and partly because such investments were viewed as reducing funds for programs. As a result, many nonprofits, as evidenced in the survey, operate in sub-standard facilities. This perpetuates common but unflattering stereotypes about the nonprofit sector. Adequate facilities play a vital role in an organization's success and must be viewed as an integral component of services. A nonprofit's facilities cannot be viewed apart from its programs and financial health. Maintaining the nonprofit's facility is as important to its success as its program capabilities.

As an important first step toward integrating programs, finances and facilities, nonprofits must make a commitment to securing adequate space. The sector must recognize that it deserves a physical environment that supports its needs and communicates its importance to society. Furthermore, nonprofits must also make a commitment to providing suitable space for clients and constituents. Nonprofits must realize that well-maintained, well-managed space benefits everyone —staff, management, clients, and their communities.

These values must be reflected in the nonprofit's financial practices. Nonprofit managers and Boards should undertake the following steps toward making facilities an integral component of the organization's capacity:

1. Develop a Facilities Master Plan based on needs and priorities. The Plan should encompass the following stages.

    - Evaluate current space. Does it meet current program needs? In what condition is the existing space? Is it well-maintained? Does the location suit the nonprofit's needs and services? Is the space conducive to the programs and services? How do constituents respond to the space?
    - Set priorities. What is the most significant facilities-related need facing the organization? What requires immediate attention? What requires long-term planning?
    - Plan for growth and change. What additional space needs will the nonprofit have in one, three, and five years? How does this relate to the organization's overall vision?
    - Budget for capital expenditures and facilities needs. What types of facilities improvements will be necessary in one, three, and five years? How much will these cost? Where will these funds come from? What plans need to be made now in anticipation of those expenses?
    - Relate facilities needs to the financial plan and conduct thorough asset analyses. How does the current facility affect the nonprofit's balance sheet? Does this accurately reflect the organization's assets?

2 Maintain current space. Nonprofits should never defer routine maintenance needs. This jeopardizes the organization's credibility, the quality of services for constituents, and the nonprofit's financial condition.
3 Reserve funds for capital expenditures. Appropriate financial planning should allow for regular maintenance, repairs, and replacement without absorbing operating money.
4 View ownership as an investment in self and the community. Nonprofits are encouraged to explore ownership as a means to increase their own assets and control their own space, when feasible and appropriate. This may be a long-term goal in the Facilities Master Plan.
5 Obtain professional help when necessary. Nonprofits should seek professional assistance in evaluating current facilities problems and solutions. This is particularly true when estimating for capital expenditures. Nonprofits should not divert significant management attention away from the core mission to undertake real estate projects if new skills are needed. This can be inefficient, costly, time-consuming, and may even hurt the organization.
6 Explore all facilities options. In some cases, nonprofits should consider alternative space arrangements as solutions to specific facilities needs. Shared space, program collaborations, or mergers may all be appropriate options at different times. Again ,this must be done in the context of integrated financial, program and facilities planning.

Private funders

A growing number of foundations and corporate funders view capital investment as a capacity-building strategy. In order to best help nonprofits achieve their goals, funders are encouraged to closely examine their policies and practices related to the role facilities play in each grantee's mission. Well-managed nonprofits use many forms of debt, leasing and other financial tools and may require assistance with all of them at certain times. Funders should develop ways to support professional help for nonprofits for their facilities needs.

In addition, funders can better understand the relationship between facilities, programs, and finances by asking a series of questions in evaluating capital requests:

1 Is the proposed facility option the best arrangement for the nonprofit? Why? This must examine the location, type of building, renovation needs, and effect on the nonprofit's balance sheet.
2 Is the capital project needed to support program expansion or organizational growth? If so, is the revenue to support the program committed and secure?
3 Is there sufficient demand for the expanded services to warrant the capital project? How is this known and documented?
4 Can the nonprofit's management handle the additional responsibilities of the expanded program and facilities? Is management controlling its growth in a planned manner?
5 Are the budgets for the proposed project realistic?
6 Has the organization budgeted for the additional costs of owning or operating the additional space (for example, property taxes—until exemption is awarded, which can take up to two years—or increased maintenance and utility costs)?
7 Does the organization have a capital reserve to maintain the additional space?
8 Has the nonprofit obtained reliable, objective, and professional advice and estimates on the project's viability? From whom?
9 How does the project relate to the organization's vision, mission, programs and finances?

Facilities-related questions also should be a routine component of evaluating requests for other projects, such as program expansion or new initiatives.

1 What are the facilities needs and implications of the proposed program, service or project?
2 How will the facilities needs be met to implement the proposed project?
3 Are there sufficient funds dedicated to facilities to achieve the desired goal?
4 Will the organization's success be hindered by facility constraints?
5 Does the current space fit the needs of the proposed program?
6 How does the organization integrate its financial, program and capital plans?

Even as funders ask more intentional questions of nonprofits with respect to their facilities, funders should begin internal discussions about re-evaluating their policies on capital funding as a capacity-building mechanism for nonprofits. Funders should also examine the role of assets and ownership in low-income communities. Nonprofits are an important vehicle through which to invest in the physical condition of disinvested communities.

Finally, funders must understand that adequate facilities are essential to outcomes and program success. In light of this, private foundations and corporations should evaluate a nonprofit's facilities as an integral part of evaluating its program. This encourages intentional integration of the nonprofit's programs, finances and facilities.

Government

Government agencies have a direct interest in supporting and encouraging capital planning on the part of nonprofits, whose facilities are a critical piece of the partnership in service delivery. The result— better maintained facilities, more stable agencies, and more efficient programs—will help keep costs down. The use of government funds for strategic capital investment or to leverage private investment or matching grants would be a wise, long-term strategy recognizing the interdependence of government and nonprofits.

Local and state governments benefit in other ways when nonprofits own or hold long-term leases on facilities in disinvested communities, as these commitments stabilize property in the absence of a commercial market.

Government can play an important role in encouraging facilities planning through required maintenance of space. However, because government has a significant stake in successful nonprofits operating in adequate space, government also should support maintenance costs as a routine component of service contracts. This is one of several ways that the relationship between government and nonprofits can reflect the integration of programs, facilities, and finances. Government support for debt service for capital expenditures represents another investment in the nonprofit's infrastructure and should be available.

Key Finding #4: Bracing for the Future

Nonprofits aware of challenges

Survey results reveal that some of the mechanisms necessary to help nonprofits build capacity are in place, and that nonprofits are fundamentally resilient, creative and resourceful. Respondents typically recognize the changes they need to make internally, but do not always have the skills and resources necessary to make those changes. This important recognition represents a critical step toward helping nonprofits take greater control of their own financial futures. Nonprofits recognize the need to build their own capacity through such measures as diversifying their funding and earning a larger portion of their income directly. This signals their commitment to greater self-reliance.

Nonprofits demonstrate high levels of tenacity and resilience in this changing environment. Despite deficits, cash flow problems, funding cuts, and lack of capital for facilities, very few nonprofits are shrinking from challenges. In fact, respondents appear to be doing the exact opposite. In looking to the future, half of respondents (224 organizations) expect that they will expand services in certain key areas. Furthermore, more than half of respondents have already made shifts in their priorities, financial practices, or management practices to respond to government policy changes and challenges in the larger nonprofit environment. Such changes include (listed in order of frequency) increased fundraising; increased strategic planning and evaluation; changing the focus, method, or means of service delivery; and increased collaboration.

Twenty-two percent of respondents (99 organizations) state that they will examine all of their existing assumptions and probably emerge as very different organizations. This re-examination of mission must be considered a practical response to the current environment of pressure on all corporations to be more accountable. Thirteen percent of respondents (59 organizations) believe that their programs and finances will remain unchanged. Only 4 percent of respondents (19 organizations) say they will reduce services or programs.

Leadership stable

The leadership of nonprofits appears to be stable and experienced, which may represent their most significant strength as they prepare for changes. The four components in managing an organization's financial health— the Board of Directors, the executive director, the financial manager, and the development director— all share responsibility for various aspects of an organization's capacity. Three-fourths of respondents' boards of directors have finance committees. Eighty-six percent of the respondents report that their boards actively participate in setting their organization's policies and making important decisions. Slightly more than half of the organizations believe they "have the right board to bring them through the challenges of the future."

Executive directors have a median tenure of seven years with an organization, demonstrating a longevity of leadership. Tenure increases directly with the size of the organization. Slightly more than half of the respondents have a dedicated financial manager on staff. Financial managers have a median of 15 years of training and experience. Approximately one-third of respondents have a development director on staff, with a median of 10 years of related training and experience. The presence of financial managers and development directors both correspond to an organization's size. These four components will play increasingly vital roles as the changing financial climate requires more planning and control. They exhibit the confidence, longevity and experience to prepare for such demands.

Nonprofits assert themselves through advocacy

Nonprofits also demonstrate a commitment to be a driving force in determining the policies and practices that will affect their financial future. More than three-fourths of respondents (341 organizations) report that they are informed about or involved in advocacy concerning fiscal or legislative policies that affect their organizations or their fields. This reflects an awareness of the issues they face and the intent to effect change on their own behalf.

Nonprofits seek assistance when necessary

Respondents are making efforts to equip themselves with the skills and tools necessary to respond to this changing environment. Ninety percent of respondents (397 organizations) have used technical assistance of some sort in the last three years, mostly in regard to computer systems. Other areas of assistance include accounting and bookkeeping, fundraising, strategic planning, program evaluation, and technology. (See Table 7 for types of Technical Assistance used.) Technical assistance will continue to be an important resource for nonprofits as they seek new ways to improve their operations and services. However, some nonprofits may not be aware of the value of outside expertise or how to secure it. Fifty-one respondents state that they need technical assistance but don't know where to find it, and 41 respondents indicate that they know they need help, but don't know what they need. Approximately one-fourth of respondents (95 organizations) that have received technical assistance during the past three years state that they would not use technical assistance if they had to pay for it themselves.

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Plans and efforts by nonprofits to increase their own financial and organizational health should continue and increase. Nonprofits' own capacity-building efforts have direct implications for the public and private sectors because they improve the efficiency and use of resources.

Governance

While many survey respondents reported favorably about their Boards of Directors, it is clear that many nonprofits still need assistance in this area. Respondents that reported that they do not have the right Board to bring them through the challenges of the future should take the following immediate Action Steps:

1. Establish a dedicated Finance Committee to oversee the financial needs and functions of the nonprofit.
2. Recruit Board members with strong financial skills and backgrounds.
3. Undergo a Board self-assessment on a regular basis to evaluate whether the appropriate combination of skills and traits are represented.
4. Make Board development a priority in the organization's long-range or strategic plan.

Building and maintaining a strong Board of Directors is one of the most critical ways for a nonprofit to sustain its capacity and ensure its long-term success. Considerable resources exist to help nonprofits with this area.

Operations
Clearly aware of their existing and forthcoming challenges, nonprofits wisely recognize the need to make important decisions about their futures now. Because so many nonprofits expressed that they are presently making major adjustments or plan to undertake significant changes, the following Action Steps are intended to facilitate further discussion about how to best accomplish these efforts:

1 Explore all possible organizational and program arrangements that will best serve the nonprofit and its clients. This should include an assessment of such options as program collaborations, consolidations, joint ventures, and mergers between nonprofits.
2 Be flexible and creative in attempting new ways to do business. Leave no organizational structures un-examined in assessing the nonprofit's capacity.
3 Set realistic goals and timelines for achieving the organizational capacity needed.
4 Lay out specific plans and benchmarks for the capacity-building changes implemented.
5 Seek technical assistance as necessary to undertake major transitions, overhauls, and assessments.

Although many nonprofits undertake organizational transformations with respect to programs and services, this Action Plan must be carried out in relation to its financial health. The nonprofit's financial health *is* its capacity to continue its services and programs in the changing environment. The success of the nonprofit depends on the extent to which it can improve its financial health as the single most important element of long-term capacity.

This type of strategic restructuring, long practiced in the corporate sector, can yield many benefits for the organization and result in a more efficient and effective nonprofit sector. It may ultimately result in difficult decisions about an organization's very existence, which must be considered in light of insurmountable challenges for some nonprofits.

Advocacy
The sector has demonstrated an ability to cohesively organize itself in response to various proposed policies affecting the nonprofit sector and its activities. Nonprofits should continue to advocate on their own behalf for policies and practices that will not just sustain their activities, but will in fact improve their financial capacity. For instance, nonprofits must address the issue of delayed government payments as a financial hindrance to stability and growth. The sector should work to demonstrate the actual costs that result from such delays, in terms of interest payments, staff lay-offs, and reduced services. This requires an advocacy strategy that educates policy makers about the role and value of nonprofits and their historic partnership with the public sector.

Nonprofits should take the following immediate Action Steps toward this end:

1 Know how and where to get timely information about government policy related to the nonprofit's field of service. This applies to local, state and federal policies.
2 Identify the single most important government policy or practice that will affect the nonprofit current operations and future viability.
3 Develop a Position Statement and a Response Strategy (if appropriate) for addressing that policy or practice.
4 Develop one new relationship with government officials (elected or non-elected) at the local, state and federal levels each year.
5 Join existing networks or coalitions of nonprofits that currently address policy issues affecting the field of service.
6 Endorse the public education campaign of the Donors Forum of Chicago, *The Nonprofits of Greater Chicago: Giving Voice to Your Heart.* The campaign is a year-long effort to increase public understanding of the value, role and impact of nonprofit and philanthropic organizations in society. Nonprofits outside of the Chicago metropolitan area can participate as well by using the campaign tool kit to develop messages and communicate their value around the state.

This Action Step recognizes that not all nonprofits have the same capacity or resources to undertake significant advocacy activities without diverting time and energy from their core mission. However, it intends to encourage the nonprofit sector to be an influential component of determining the policies and practices that will affect their financial capacity.

Technical Assistance
Nonprofits should continue to use the ample technical assistance expertise that is available, but they should be rigorous in evaluating these services. The willingness to pay for such expertise demonstrates a direct commitment by the nonprofit to invest in its own infrastructure to improve capacity.

Boards and staff should work closely together to set appropriate policies, goals, and plans for the nonprofit's future. Finance committees also should be actively involved in monitoring current conditions as well as developing achievable financial plans for the long term. Attention to improved financial planning will bring other benefits such as more experienced Board members and the ability to secure development directors and borrow for capital investment. These needs support a closer examination of both internal practices and long-term goals.

Nonprofit management and Boards should take the following Action Steps in this area:

1 Identify three areas related to the organization's financial health and capacity that require outside technical assistance.
2 Prioritize the areas for the next two years and develop an appropriate plan for securing the assistance necessary. This may include a plan for raising funds necessary to pay for technical assistance.
3 Budget for technical assistance expenditures.

Private funders

While government is perhaps the most important partner for much of the sector and has an interest in the sector's ability to perform efficiently and effectively, historically the private sector has provided funds to strengthen nonprofits and help them test new programs. Foundations, too, must be responsive to needed changes in order to retain their critical role and influence over the future of service delivery. In this survey, nonprofits state that multi-year general operating support is their top priority. Funders are urged to examine their programs in relation to this finding. Foundations have the responsibility to fund only the highest performing technical assistance providers and to expect boards of directors to focus on results. Foundations must move beyond just sustaining nonprofits to equipping them with the skills and resources necessary for the long term.

Private foundations are encouraged to survey their current grantees about the nonprofits' most significant capacity-building needs. As foundations continue to identify new program priorities for their grant-making, capacity-building awards pertaining to financial health and viability should be a high priority for resources.

Finally, as nonprofits explore numerous organizational changes or strategic alliances that may ultimately improve their capacity, funders should demonstrate a funding commitment to helping nonprofits through such transitions and experiments. The grantmaker-grantee relationship must be strong but flexible enough during this phase to engage in honest dialogue about viable options without the threat of loss of support. Once again, this points to the importance of supporting organizations rather than just programs and services.

Government

The public sector, too, must examine its resources in terms of building capacity in the nonprofit sector, not just purchasing services or programs. Direct or indirect funds for technical assistance should be available to build nonprofit capacity. This is critical to sustaining the long-standing relationship between government and nonprofits in light of reduced overall support from the public sector. Government should view technical assistance for the nonprofit sector as an important means to achieving the public sector's own goals for greater efficiency and effectiveness.

The public and private sectors need to explore ways to help nonprofits achieve their goals. The changing roles of government and private philanthropy will require that both sectors make investments in the infrastructure of the nonprofit sector. This, in turn, will ultimately yield higher measurable returns for all sectors. Ensuring the viability and strength of nonprofits requires the partnership of civic leadership, corporate volunteers, government officials and funders, bringing together the most appropriate skills and roles of each to help Illinois nonprofits build capacity for the next century.

Profile of the Survey Respondents

The following tables present summary information from the survey. A full copy of the survey appears at the end of this report.

Table 1: Nonprofits by Field of Service, Location and Annual Revenues

	Universe	As a percent of total universe	Survey Respondents	As a percent of all respondents	As a percent of the total universe for specific category
Field of Service					
Advocacy, Education, and Other	1104	27%	105	24%	10%
Arts, Culture, Humanities	575	14%	54	12%	9%
Community/Economic Development	297	7%	46	10%	15%
Health, Mental Health, Developmental Disabilities	783	19%	107	24%	14%
Human Service	1379	33%	129	29%	9%
Total	**4138**	**100%**	**441**	**100%**	
Location					
Chicago	1306	32%	133	30%	10%
Suburban Chicago	1193	29%	125	28%	10%
Other metro area	683	17%	69	16%	10%
Small city/rural	956	23%	99	22%	10%
Statewide, national, international	–	NA	15	3%	NA
Total	**4138**	**100%**	**441**	**100%**	
Annual Revenues					
Less than $250,000	1993	48%	118	27%	6%
$250,000 to $499,999	636	15%	75	17%	12%
$500,000 to $999,999	491	12%	66	15%	13%
$1,000,000 to $4,999,999	742	18%	133	30%	18%
More than $5,000,000	276	7%	49	11%	18%
Total	**4138**	**100%**	**441**	**100%**	

Table 2: The Scale of the Nonprofit Sector *

	Survey Respondents 441	**Universe 4,138**
Total Revenues in 1996-97	$ 1,176,266,605	$ 11,762,666,050
Total Expenses in 1996-97	$ 1,131,835,335	$ 11,318,353,350
Total Surplus	$ 44,431,270	$ 444,312,700
Total Employees	18,298	182,980
Total Square Feet Owned	3,332,218	33,322,180
Total Square Feet Leased	9,217,604	92,176,040
Total Square Feet Borrowed	501,490	5,014,900

* Survey responses represent statistically valid information that can be extrapolated to the universe of 4,138 nonprofits in the original sample pool. Responses account for approximately 10 percent of the total universe. Throughout this report, in order to illustrate the implication of the findings to the universe, survey results are multiplied by ten and highlighted as "The Scale of the Sector."

Table 3: Profile of Survey Respondents by Geographic Location

Survey Questions	All Respondents n=441	Chicago n=133	Suburban Chicago n=125	Other Metro Areas n=69	Small City/Rural n=99
Tenure of Executive Director	7 years	5 years	6 years	8 years	8 years
Number of staff	12 FTEs	10 FTEs	9 FTEs	15 FTEs	13 FTEs
Financial manager on staff	52.2%	54.1%	52.8%	55.1%	45.5%
Development Director on staff	36.0%	48.9%	37.6%	33.3%	20.2%
Finance committee on board	75.7%	81.2%	76.8%	76.8%	68.7%
1996-97 median income	$690,010	$723,151	$585,886	$685,907	$551,438
1995-96 median income	$655,556	$731,720	$606,743	$675,114	$633,000
% change in income, '95/96 to '96/97	5.3%	-1.2%	-3.4%	1.6%	-12.9%
1996-97 income sources* †					
Government grants/contracts	50.3%	50.7%	44.1%	53.0%	69.0%
Earned income	25.0%	17.4%	36.3%	30.5%	18.7%
Individual donations/memberships	9.8%	11.0%	7.2%	7.0%	7.4%
Foundation/corporate grants	6.8%	11.9%	5.5%	1.9%	1.2%
Fundraisers/events	3.6%	3.9%	3.7%	2.7%	1.5%
United Way/federated funds	3.0%	3.2%	2.3%	3.2%	1.2%
Charitable gambling	0.2%	0.0%	0.2%	0.7%	0.0%
Other	1.3%	1.8%	0.8%	1.1%	0.9%
Perception of Financial Health					
Financially healthy	35.6%	29.3%	38.4%	46.4%	30.6%
Healthy but vulnerable	43.1%	45.9%	40.8%	40.6%	45.9%
Chronic financial problems	20.6%	24.8%	19.2%	13.0%	23.5%
Don't know how it will survive	0.5%	0.0%	1.6%	0.0%	0.0%
Have a cash reserve	66.4%	60.9%	72.0%	79.7%	61.6%
Deficit in last three years	57.8%	60.9%	64.8%	49.3%	51.5%
Experience cashflow problems	76.4%	74.4%	80.8%	75.4%	76.8%
Borrowed money in last 12 months	39.9%	40.6%	36.0%	47.8%	43.4%
Income mix will change by 2000	40.4%	47.4%	40.0%	37.7%	35.4%
Predict expansion of services	50.8%	50.4%	55.2%	42.0%	51.5%
Predict complete change of organization	22.4%	26.3%	18.4%	23.2%	21.2%
Right board for future	54.0%	48.1%	48.8%	63.8%	59.6%

Note: Geographic subsets represent area of primary service provision as self-identified by respondents
Does not include statewide, national, or international groups (15 respondents total).

*Represents aggregate dollar-weighted averages; may not equal 100 percent due to rounding.

†Represents the income mix for the median respondent.

Table 4: Profile of Survey Respondents by Field of Service

Survey Questions	All Respondents n=441	Human Service n=129	Arts and Culture n=54	Health/Mental Health and Development Disability n=107	Community/ Development and Employment n=46
Age of organization (median)	24 years	26 years	21 years	28 years	17 years
% located in Chicago/Metro Chicago	58.5%	51.9%	77.8%	51.4%	71.7%
Tenure of Executive Director	7 years	6 years	6 years	8 years	5 years
Number of staff	12 FTEs	15 FTEs	3 FTEs	30 FTEs	7 FTEs
Financial manager on staff	52.2%	51.9%	44.4%	61.7%	58.7%
Development Director on staff	36.0%	42.6%	37.0%	35.5%	30.4%
Finance committee on board	75.7%	78.3%	79.6%	84.1%	60.9%
1996-97 median income	$690,010	$707,525	$338,673	$1,549,779	$477,887
1995-96 median income	$655,556	$747,147	$262,955	$1,381,787	$466,075
% change in income, '95/96 to '96/97	5.3%	-5.3%	28.8%	12.2%	2.5%
1996-97 income sources* †					
Government grants/contracts	50.3%	60.0%	3.9%	64.7%	56.6%
Earned income	25.0%	13.9%	45.8%	23.1%	21.0%
Individual donations/memberships	9.8%	9.5%	16.2%	4.0%	3.8%
Foundation/corporate grants	6.8%	5.4%	24.6%	2.9%	9.1%
Fundraisers/events	3.6%	3.7%	8.0%	2.8%	3.2%
United Way/federated funds	3.0%	5.4%	0.0%	1.6%	2.3%
Charitable gambling	0.2%	0.3%	0.0%	0.1%	0.0%
Other	1.3%	1.8%	1.5%	1.0%	3.8%
Perception of Financial Health					
Financially healthy	35.6%	36.7%	31.5%	39.3%	34.8%
Healthy but vulnerable	43.1%	42.2%	37.0%	45.8%	43.5%
Chronic financial problems	20.6%	20.3%	31.5%	15.0%	19.6%
Don't know how it will survive	0.5%	0.8%	0.0%	0.0%	2.2%
Have a cash reserve	66.4%	70.5%	63.0%	72.0%	60.9%
Deficit in last three years	57.8%	53.5%	61.1%	60.7%	67.4%
Experience cashflow problems	76.4%	79.1%	72.2%	78.5%	67.4%
Borrowed money in last 12 months	39.9%	44.2%	42.6%	43.0%	34.8%
Income mix will change by 2000	40.4%	41.9%	42.6%	47.7%	39.1%
Predict expansion of services	50.8%	49.6%	50.0%	43.9%	52.2%
Predict complete change of organization	22.4%	24.0%	24.1%	29.0%	21.7%
Right board for future	54.0%	58.1%	33.3%	60.7%	45.7%

"Note: Comparisons do not include Education, Advocacy, Recreation, Environmental,
and groups self-identified as "other" (105 respondents total)".

*Represents aggregate dollar-weighted averages; may not equal 100 percent due to rounding.

†Represents the income mix for the median respondent.

Table 5: Profile of Survey Respondents by Annual Revenues

Survey Questions	All Respondents n=441	Less than $250,000 n=118	$250,000 to $4,999,999 n=75	$500,000 to $999,999 n=66	$1,000,000 to $499,999 n=133	More than $5,000,000 n=49
Age of organization	24 years	16 years	19 years	24 years	28 years	38 years
Tenure of Executive Director	7 years	4 years	6 years	7 years	8 years	8 years
Number of staff	12 FTEs	2 FTEs	6 FTEs	14 FTEs	43 FTEs	176 FTE's
Financial manager on staff	52.2%	22.9%	29.3%	51.5%	73.7%	100.0%
Development Director on staff	36.0%	12.7%	29.3%	30.3%	49.6%	73.5%
Finance committee on board	75.7%	57.6%	70.7%	75.8%	87.2%	95.9
1996-97 median income	$690,010	$139,637	$370,316	$707,138	$1,983,273	$8,327,295
1995-96 median income	$655,556	$139,753	$342,869	$652,678	$1,813,851	$8,472,731
% change in income,'95/96 to '96/97	5.3%	-0.1%	8.0%	8.3%	9.3%	-1.7%
1996-97 income sources* †						
Government grants/contracts	50.3%	28.1%	30.5%	35.8%	49.4%	53.6%
Earned income	25.0%	22.0%	22.7%	27.1%	25.4%	25.1%
Individual donations/memberships	9.8%	18.2%	14.9%	10.5%	9.5%	9.4%
Foundation/corporate grants	6.8%	18.4%	15.2%	14.4%	5.9%	6.0%
Fundraisers/events	3.6%	7.9%	8.0%	7.0%	5.5%	1.7%
United Way/federated funds	3.0%	3.4%	6.5%	3.8%	2.4%	3.2%
Charitable gambling	0.2%	0.0%	0.6%	0.4%	0.3%	0.0%
Other	1.3%	2.1%	1.6%	1.0%	1.7%	0.9%
Perception of Financial Health						
Financially healthy	35.6%	29.1%	33.3%	27.3%	42.9%	46.9%
Healthy but vulnerable	43.1%	41.0%	42.7%	53.0%	41.4%	40.8%
Chronic financial problems	20.6%	29.9%	22.7%	19.7%	15.0%	12.2%
Don't know how it will survive	0.5%	0.0%	1.3%	0.0%	0.8%	0.0%
Have a cash reserve	66.4%	67.8%	60.0%	69.7%	67.7%	79.6%
Deficit in last three years	57.8%	57.6%	56.0%	62.1%	60.9%	46.9%
Experience cashflow problems	76.4%	69.5%	77.3%	81.8%	83.5%	65.3%
Borrowed money in last 12 months	39.9%	20.3%	44.0%	31.8%	53.4%	55.1%
Income mix will change by 2000	40.4%	34.7%	37.3%	43.9%	44.4%	42.9%
Predict expansion of services	50.8%	47.5%	54.7%	60.6%	48.9%	44.9%
Predict complete change of organization	22.4%	17.8%	20.0%	18.2%	27.1%	30.6%
Right board for future	54.0%	45.8%	45.3%	59.1%	60.9%	61.2%

*Represents aggregate dollar-weighted averages; may not equal 100 percent due to rounding.

†Represents the income mix for the median respondent.

Survey Highlights by Field of Service[10]

See Table 6 for a detailed account of all survey responses.

Arts

(n=54)

Arts groups struggle to survive but earn revenue from ticket sales and memberships.

- Employed a median of 3 Full-Time Equivalents—the smallest of all respondents.
- Spent a median of $256,530 in 1996-97—the smallest of all respondents.
- Received the highest percentages of their income from earned revenue(median = 39%) and from foundation and corporate grants (median = 17%).
- Reported the largest percent of respondents (31.5%) that "have chronic financial problems, but expect to survive."
- Reported the highest percent of respondents (6%) whose facilities are "unacceptable."
- Spent more than any other group on their most recent facility-related project (median = $78,500; mean = $4,443,794).
- Planned to spend more than any other group on major future capital projects (median = $2 million; mean = $6 million).
- Cited the number one challenge as "Shortage of income to meet expenses."

Health

(n=41)

Health care providers are regulated by the government and have significant capital investments.

- Received the fewest dollars from fundraising events.
- Reported the smallest percent of respondents (9.8%) that "have chronic financial problems but expect to survive."
- Reported the highest percent of respondents with a cash reserve (75%).
- Reported having the largest cash reserves (4 months, operating budget or more).
- Borrowed funds to take advantage of new opportunities or to start new programs more than any other group.
- Reported the smallest number of respondents that had to borrow funds to stabilize cash flow.
- Reported the highest balance sheet value of property, plant and equipment (mean = $3.6 million).
- Owned more space than any other field (mean = 83,032 square feet).
- Reported the highest number of respondents whose facilities are "excellent" or "good" (83%).
- Reported the highest percent of respondents with a maintenance/replacement reserve to pay for future capital projects.
- Cited the number one challenge as "Shrinking public money to support program."

10 Note: Survey results by field of service are descriptions of respondents only. They cannot be extrapolated to draw conclusions about all nonprofits in a particular category.

Community/Economic Development & Housing

(n=34)

Economic development nonprofits are often entrepreneurial and have high impact while keeping staff small.

- Reported the youngest median age of organizations (14 years) and the shortest tenure of the executive director (median = 4 years).
- Reported the smallest percent of respondents that did not have a deficit in the last three years (26.5%).
- Reported the highest percent of respondents that do not have any cash flow problems (26.5%).
- Reported the highest percent of respondents that were denied credit because the lender did not have confidence in the organization's ability to repay.
- Leased more space than any other group (mean = 32,457 square feet)
- Cited the number one challenge as "Growing demand for services without the resources to support program growth."

Child Welfare

(n=25)

The Illinois child welfare system represents a long-standing and close partnership with the State.

- Reported the oldest median age of organizations—30 years.
- Employed the highest number of Full-Time Equivalents (median = 42).
- Reported the highest median income for 1995-96 and 1996-97—$2,122,419 and $2,507,857 respectively.
- Received the highest median percentage of income from government—75%.
- Reported the highest percent of respondents that are "Financially healthy and not vulnerable." (50%)
- Reported the highest percent of respondents that have an endowment, and reported the largest median endowment ($3 million).
- Reported the highest percent of respondents that did not have a deficit within the last three years(56%).
- Reported the highest percent of respondents that use bank loans to handle cash flow problems (44%).
- Reported the highest percent of respondents that plan to undertake a major facilities project in the next year (44%).
- Cited the number one challenge as "Growing demand for services without the resources to support program growth."

Child Care

(n=32)

Child care requires specialized facilities, is highly regulated, and depends heavily on parent volunteers for fundraising.

- Reported the longest median years of experience among financial managers (16.5 years).
- Reported the lowest percent of respondents with dedicated development directors (21.9%) and dedicated financial managers (37.5%).
- Reported the highest median surplus in 1996-97 (5.1%).
- Spent a larger portion of their budgets on property, plant and equipment than any other group (5% median).
- Paid for facilities projects out of budgeted replacement/maintenance reserve and special fundraising more than other groups.
- Cited the number one challenge as "Growing demand for services without the resources to support program growth."

Mental Health/Developmental Disabilities

(n=66)

The mental health system in Illinois has increasingly privatized as state institutions have been closed in favor of community residences.

- Reported the highest percent of respondents with Finance Committees on the Board (86.4%).
- Reported the highest percent of respondents experiencing cash flow problems caused by delays in government payments (70%).
- Reported the highest percent of respondents that use cash reserves to address cash flow problems (54.5%).
- Reported the highest percent of respondents that have a replacement reserve for facilities in the annual operating budget.
- Reported the highest median balance sheet value of property, plant and equipment ($636,977).
- Leased the highest median square feet (6,000).
- Reported the largest amount of facility activity among respondents (85% of all respondents in this category did some facility project within the last year).
- Cited number one challenge as "Growing demand for services without the resources to support program growth."

General Human Service

(n=72)

Shelters, counseling and homeless services are not mandated programs and are subject to rapid changes in public and private funding.

- Reported the shortest length of experience among development directors (4.5%).
- Spent the least on administration and finance expenses (median of 10% of revenue).
- Use the most donated or free space (median = 5,000 square feet; mean = 13,249 square feet).
- Report the highest percent of respondents whose facilities are "barely acceptable" (11.4%).
- Need to undertake capital projects to improve building operations and efficiency more than any other group (38.6%).
- Reported the highest percent of respondents that will need to reduce key program budgets and services (7.9%).
- Cited the number one challenge as "Growing demand for services without the resources to support program growth."

Education

(n=41)

Private nonprofit schools depend on parent tuition for most of their revenue.

- Reported the longest median years of experience among development directors (15 years).
- Received the least amount of revenue from government sources (median = 3%).
- Reported the lowest percent of budget spent on fundraising expenses (median = 0%).
- Reported the lowest percent of respondents that have a cash reserve (56%).
- Paid for recent facilities projects out of operating budgets more than any other group (34%).
- Cited the number one challenge as the "Inability to access foundation contributions."

Jobs/Employment

(n=11)

Nonprofit job training programs have suffered serious competition from the for-profit sector.

- Reported the highest median tenure of the Executive Director (12.5 years).
- Reported the highest percent of respondents with a dedicated financial manager on staff (72.7%).
- Reported the fewest Finance Committees on Boards of Directors (54.5%).
- Reported the largest occurrence of deficits (73%). Experienced median deficits in 1995-96 and 1996-97. This was the only group to experience this.
- Reported the highest percent of respondents that are "financially healthy but feel vulnerable" (63.6%).
- Reported the highest percent of respondents that "don't know how we will survive this year" (9.1%).
- Were more likely to cut expenses (including staff lay-offs) than any other group in order to deal with deficits.
- Attributed cash flow problems to "spending money that was anticipated but not received" more than any other group.
- Transferred money between funds to cover cash flow problems more than any other group.
- Could not access credit because the rates and terms of the loan were too high.
- Owned the highest median square feet (40,000).
- Cited the number one challenge as "Shortage of income to meet expenses."

Advocacy

(n=22)

Advocacy groups have few needs other than salaries. Some funders will not support lobbying activities.

- Reported the shortest median tenure of the Executive Director (4 years).
- Received the lowest median income in 1995-96 ($255,130).
- Tied with Arts groups for the highest percent of respondents that "have chronic financial problems but expect to survive" (31.8%).
- Attributed cash flow problems to fundraising campaigns that did not meet expected goals more than any other group (27.3%).
- Reported the lowest responses for almost all facilities-related questions.
- Cited the number one challenge as "Growing demand for services without the resources to support program growth."

Table 6: Summary of Survey Responses By Field of Service

Survey Question/Topic	Arts & Culture	Health	Community Development/ Housing	Child Welfare	Child Care	Mental Health/ Developmental Disabilities	General Human Service	Education	Jobs/Employment	Advocacy	Other
Number of Respondents	(n=54)	(n=41)	(n=34)	(n=25)	(n=32)	(n=66)	(n=72)	(n=41)	(n=11)	(n=22)	(n=43)
General Organization Profile											
Age of Organization (median years)	21.0	28.0	14.0	30.0	24.0	29.0	26.0	18.0	19.0	22.0	25.0
Tenure of Executive Director (median years)	6.0	5.0	4.0	8.0	5.5	10.0	5.0	7.0	12.5	4.0	8.0
Number of Full-Time Equivalents (median)	3.0	22.0	7.0	42.0	12.5	39.0	18.5	5.5	7.5	9.0	8.5
Dedicated Financial Manager on Staff (percent of respondents)	44.4	56.1	55.9	64.0	37.5	65.2	54.3	41.5	72.7	40.9	46.7
Length of Experience of Financial Manager (median years)	10.0	9.0	15.0	15.0	16.5	14.0	15.0	16.0	10.5	10.0	15.5
Dedicated Development Director/Fundraiser on Staff (percent of respondents)	37.0	26.8	32.4	60.0	21.9	40.9	47.1	29.3	27.3	31.8	29.5
Length of Experience of Development Director (median years)	10.0	5.0	10.0	12.0	6.5	10.0	4.5	15.0	7.0	6.0	10.0
Board has a Finance Committee (percent of respondents)	79.6	80.5	61.8	84.0	68.8	86.4	81.4	63.4	54.5	59.1	77.8
Income and Expenses *											
Income 1996-97 (median)	$338,673	$1,486,493	$353,942	$2,122,419	$356,212	$1,828,451	$776,845	$411,869	$608,057	$255,130	$559,116
Expense 1996-97 (median)	$256,530	$1,332,816	$332,584	$2,038,761	$288,800	$1,635,437	$770,558	$367,601	$656,094	$287,480	$532,206
Excess/Shortfall 1996-97 (median)	$6,396	$9,478	$19,867	$17,712	$6,001	$13,153	$15,967	$9,653	-$48,037	$4,319	$5,365
As a Percentage of Median Income	1.9	0.6	5.6	0.8	1.7	0.7	2.1	2.3	-7.9	1.7	1.0
Income 1995-96 (median)	$262,955	$1,342,274	$286,908	$2,507,857	$388,155	$1,762,878	$795,295	$404,881	$786,044	$266,693	$635,569
Expense 1995-96 (median)	$253,731	$1,305,416	$294,130	$2,166,342	$357,403	$1,763,096	$820,154	$390,611	$822,181	$258,418	$622,515
Excess/Shortfall 1995-96 (median)	$7,219	$35,247	$3,000	$4,336	$19,922	$5,801	$12,599	$8,454	-$20,622	$8,139	$12,206
As a Percentage of Median Income	2.7	2.6	1.0	0.2	5.1	0.3	1.6	2.1	-2.6	3.1	1.9
Revenue Sources *											
Government Grants/Contracts	4.8	24.5	42.0	75.0	64.0	70.0	34.0	3.0	73.4	11.0	2.5
Foundation/Corporate Grants	17.0	0.0	10.0	2.9	0.0	0.0	4.9	0.0	6.5	11.0	1.6
Individual Donations/Memberships	12.0	2.0	8.0	4.4	2.0	2.0	6.0	4.0	0.1	7.0	9.2
Fundraisers/Events	4.0	0.0	3.0	1.0	1.0	1.0	5.0	1.0	0.0	5.5	0.6
Earned Income	39.0	17.5	1.0	1.0	8.0	13.0	7.3	27.0	4.0	3.0	12.0
United Way	0.0	0.0	0.0	0.0	0.5	0.5	5.6	0.0	0.0	0.0	0.0
Expenses *											
Programs	66.5	76.0	80.0	81.0	78.5	82.0	80.0	74.5	79.0	76.1	79.0
Fundraising	4.0	0.2	1.0	2.0	0.5	0.5	3.3	0.0	1.3	5.0	1.0
Administration/Finance	20.5	15.0	13.0	12.0	14.1	13.0	10.0	15.0	12.0	10.5	15.0
Plant/Equipment	3.0	2.0		3.6	5.0	3.0	3.0	1.0	1.0	0.0	1.0
Perception of Financial Health (percent of respondents)											
"Financially healthy and not vulnerable"	31.5	46.3	47.1	50.0	46.9	34.8	27.1	34.1	0.0	18.2	40.0
"Have been healthy, but feel vulnerable"	37.0	43.9	35.3	25.0	34.4	47.0	51.4	43.9	63.6	50.0	44.4
"Have chronic financial problems, but expect to survive"	31.5	9.8	17.6	25.0	18.8	18.2	20.0	22.0	27.3	31.8	15.6
"Don't know how we will survive this year"	0.0	0.0	0.0	0.0	0.0	0.0	1.4	0.0	9.1	0.0	0.0
Cash Reserves and Endowments (percent of respondents)											
Have a cash reserve fund to meet projected cash shortfalls	63.0	75.6	59.4	64.0	75.0	69.7	72.1	56.1	72.7	59.1	82.2
Size of reserves (percent of respondents with a cash reserve):											
Equivalent to 1 month's operating budget or less	31.3	13.3	26.3	31.3	52.2	41.3	35.4	27.3	50.0	30.8	36.1
Equivalent to 2 to 3 months' operating budget	46.9	36.7	47.4	37.5	34.8	37.0	35.4	54.5	37.5	30.8	27.8
Equivalent to 4 or more months' operating budget	21.9	50.0	26.3	31.3	13.0	21.7	29.2	18.2	12.5	38.5	36.1
Have an endowment (percent of respondents)	29.6	26.8	5.9	32.0	9.7	31.8	31.9	20.0	0.0	18.2	31.8
Size of endowment (median)	$450,000	$570,000	*$175,000	$3,000,000	*$150,000	$506,000	$462,000	$663,000		*$200,000	$629,000

*Medians were calculated separately for each category and do not represent the same data record.

Table 6: Summary of Survey Responses By Field of Service

Survey Question/Topic	Arts & Culture	Health	Community Development/ Housing	Child Welfare	Child Care	Mental Health/ Developmental Disabilities	General Human Service	Education	Jobs/Employment	Advocacy	Other
Number of Respondents	(n=54)	(n=41)	(n=34)	(n=25)	(n=32)	(n=66)	(n=72)	(n=41)	(n=11)	(n=22)	(n=43)
Deficits (percent of respondents that used these methods to handle a deficit during the past three years)											
Used prior year's reserves	33.3	36.6	29.4	-	21.9	36.4	31.4	-	63.6	31.8	37.8
Borrowed money	-	-	-	-	-	-	-	24.4	-	-	-
Fundraised	35.2	-	29.4	-	-	-	31.4	26.8	-	-	-
Approached the board for a special contribution	-	-	-	24.0	-	-	-	-	-	-	-
Cut expenses	33.3	31.7	-	24.0	-	30.3	-	-	45.5	22.7	26.7
Cut expenses, including staff lay-offs	-	-	-	-	25.0	-	-	-	45.5	-	-
Did not have a deficit in the past 3 years	-	31.7	26.5	56.0	37.5	33.3	30.0	46.3	-	31.8	26.7
(- = not one of the top three responses for that type of organization)											
Surpluses (percent of respondents that used surpluses in the following ways during the past three years)											
Kept the surplus in a regular account for use when cash flow was tight	37.0	22.0	35.3	28.0	15.6	27.3	31.4	36.6	36.4	36.4	33.3
Put the surplus into savings to be used for a specific purpose	18.5	14.6	17.6	-	25.0	21.2	-	14.6	9.1	-	-
Put the surplus into savings to be added to yearly, with the intention of developing a reserve	14.8	22.0	17.6	16.0	18.8	21.2	24.3	12.2	-	22.7	20.0
Other	-	-	-	20.0	-	-	-	-	9.1	-	-
Did not have a surplus in the last three years:	-	-	-	16.0	15.6	-	14.3	-	27.3	22.7	22.2
(- = not one of the top three responses for that type of organization)											
Cash Flow Problems (percent of respondents that attribute cash flow problems to these reasons)											
Delays in government payments	-	41.5	38.2	64.0	62.5	69.7	51.4	34.1	63.6	40.9	35.6
A prior deficit	-	-	-	-	-	-	-	-	-	-	-
Spent money that was anticipated, but not received	-	-	-	-	-	-	-	-	27.3	-	-
Unanticipated expenses	-	-	-	-	15.6	13.6	-	22.0	-	-	-
Normal business cycles	40.7	36.6	-	28.0	-	22.7	41.4	36.6	-	31.8	33.3
Fundraising campaigns that did not meet expected goals	20.4	-	20.6	-	-	-	18.6	-	18.2	27.3	-
Timing of fundraising campaigns	20.4	-	-	-	-	-	-	-	-	-	-
No cash flow problems	-	22.0	26.5	20.0	21.9	-	-	-	18.2	-	22.2
(- = not one of the top three responses for that type of organization)											
Cash Flow Strategies (percent of respondents that use these methods to address cash shortages)											
Increase fundraising activities	-	-	-	-	-	-	-	-	-	40.9	28.9
Cut non-essential expenses	48.1	41.5	44.1	44.0	37.5	40.9	40.0	43.9	45.5	40.9	33.3
Delay payment of bills	-	-	41.2	40.0	-	-	-	-	36.4	45.5	-
Transfer money from other funds	31.5	48.8	-	40.0	31.3	-	37.1	39.0	72.7	-	-
Use cash reserves	42.6	53.7	38.2	-	40.6	54.5	51.4	41.5	-	40.9	53.3
Request a loan from a bank	-	-	-	44.0	-	36.4	-	-	-	-	-
(- = not one of the top three responses for that type of organization)											
Other Financial Practices (percent of respondents)											
Distinguish between capital and operating funds in the annual budget	50.0	69.2	62.5	60.0	64.5	66.7	64.7	45.0	36.4	22.7	46.5
Have a replacement reserve for facilities in the annual operating budget	17.3	39.0	15.6	36.0	48.4	55.6	27.9	12.8	0.0	4.5	20.5

Table 6: Summary of Survey Responses By Field of Service

Survey Question/Topic	Arts & Culture	Health	Community Development/ Housing	Child Welfare	Child Care	Mental Health/ Developmental Disabilities	General Human Service	Education	Jobs/Employment	Advocacy	Other
Number of Respondents	**(n=54)**	**(n=41)**	**(n=34)**	**(n=25)**	**(n=32)**	**(n=66)**	**(n=72)**	**(n=41)**	**(n=11)**	**(n=22)**	**(n=43)**
Borrowed funds from one or more of these sources during the last 12 months:											
Bank or commercial lending organizations	24.1	22.0	11.8	48.0	34.3	37.9	35.7	29.3	54.5	13.6	11.1
Friend, board or staff member	11.1	-	5.9	4	-	-	2.9	9.8	18.2	4.5	-
Foundation or foundation-sponsored loan program	-	-	-	-	-	4.5	-	4.9	-	-	-
Government agency	-	-	-	-	3.1	-	-	-	-	-	-
An affiliated organization	-	-	8.8	-	-	4.5	2.9	-	-	9.1	-
Endowment or special internal fund	5.6	2.4	-	8.0	-	10.6	7.1	-	-	4.5	4.4
Other	-	4.9	-	-	-	-	-	-	-	-	8.9
(- = not one of the top three responses for that type of organization)											
Cited one of these reasons for borrowing funds:											
Stabilizing cash flow	33.3	17.1	20.6	48	21.9	36.4	34.3	24.4	45.5	27.3	6.7
Purchasing equipment or building	11.1	-	8.8	12	15.6	13.6	10	9.8	9.1	4.5	11.1
Taking advantage of an opportunity or starting a new program	-	7.3	-	-	-	6.1	2.9	-	-	-	-
Emergency	3.7	2.4	-	-	-	-	-	4.9	-	-	-
Other	-	2.4	-	8	-	-	2.9	-	9.1	-	4.4
(- = not one of the top three responses for that type of organization)											
Have been unable to access a loan or line of credit due to one or more of these common reasons:											
Lender did not have confidence in ability to repay	5.6	-	5.9	4.0	3.1	-	-	-	-	-	-
Could not satisfy collateral requirements	5.6	-	5.9	-	-	-	-	7.3	9.1	4.5	-
Lender required a personal guarantee for the amount of the loan	3.7	-	-	-	6.3	-	1.4	7.3	-	-	2.2
Lender wasn't comfortable working with nonprofits	-	2.4	-	-	6.3	-	-	4.9	-	-	-
Board members would not approve financing as an option	-	2.4	2.9	-	3.1	-	1.4	-	-	-	-
Could not afford rates and terms of the loan	-	-	-	-	-	-	-	-	18.2	-	-
Did not know where or how to apply for a loan	-	-	-	-	-	-	-	-	9.1	-	-
Other	-	-	-	4.0	-	1.5	-	-	-	-	-
(- = not one of the top three responses for that type of organization)											
Facilities											
Median balance sheet value of property, plant and equipment:	$65,000	$366,239	$80,100	$582,109	$93,174	$636,977	$399,500	$95,287	$39,000	$27,473	$126,000
Mean balance sheet value of property, plant and equipment:	$2,129,209	$3,615,022	$466,641	$2,076,730	$869,837	$1,806,825	$1,505,503	$1,163,072	$400,543	$78,559	$3,616,064
Median estimated total square footage of buildings/space that is:											
Leased by the nonprofit	3,700	3,000	5,000	5,860	4,000	6,000	4,300	3,300	4,550	3,000	3,000
Owned by the nonprofit	18,000	17,500	18,000	34,379	11,050	26,000	27,000	22,500	40,000	6,750	22,000
Donated or given as free space	2,250	1,900	1,750	2,000	2,500	3,000	5,000	892	3,500	594	2,000
Mean estimated total square footage of buildings/space that is:											
Leased by the nonprofit	10,479	8,837	32,457	28,215	6,201	13,566	15,929	8,603	5,213	2,986	4,700
Owned by the nonprofit	8,603	83,032	27,375	59,329	22,285	42,662	40,816	54,308	62,000	6,750	104,351
Donated or given as free space	6,424	2,600	2,698	6,200	10,933	4,135	13,249	3,318	3,500	531	6,494

Table 6: Summary of Survey Responses By Field of Service

Survey Question/Topic	Arts & Culture	Health	Community Development/ Housing	Child Welfare	Child Care	Mental Health/ Developmental Disabilities	General Human Service	Education	Jobs/Employment	Advocacy	Other
Number of Respondents	(n=54)	(n=41)	(n=34)	(n=25)	(n=32)	(n=66)	(n=72)	(n=41)	(n=11)	(n=22)	(n=43)
Described the general physical condition of their buildings as (percent of respondents):											
Excellent	21.6	29.3	20.6	32.0	22.6	18.5	22.9	17.9	18.2	23.8	25.0
Good	41.2	53.7	50.0	48.0	48.4	58.5	39.6	59.0	54.5	28.6	34.1
Acceptable	25.5	14.6	20.6	12.0	22.6	16.9	27.1	23.1	27.3	38.1	25.0
Barely Acceptable	5.9	2.4	8.8	8.0	6.5	6.2	11.4	0.0	0.0	4.8	13.6
Unacceptable	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.8	2.3
Most recent facility-related project included (percent of respondents):											
Maintenance repairs, minor renovations or small improvements	25.9	31.7	47.1	24.0	46.9	40.9	35.7	43.9	27.3	13.6	22.2
Major renovation	7.4	19.5	17.6	12.0	12.5	15.2	18.6	9.8	9.1	9.1	20.0
Acquisition of property or new construction	18.5	12.2	8.8	24.0	21.9	27.3	18.6	7.3	9.1	4.5	11.1
Other	3.7	2.4	2.9	12.0	0.0	1.5	7.1	7.3	18.2	4.5	11.1
Have not done any recent facility-related projects	29.6	29.3	26.5	24.0	18.8	15.2	25.7	31.7	45.5	50.0	35.6
Median total cost of this project (rounded to whole dollars):	$78,500	$39,750	$14,400	$75,000	$12,500	$40,000	$50,000	$15,000	$45,000	$3,000	$40,000
Mean total cost of this project (rounded to whole dollars):	$4,443,794	$372,009	$350,701	$321,357	$169,828	$275,556	$286,623	$157,906	$96,000	$14,640	$1,313,126
Paid for this facilities project with funds from (percent of respondents):											
Maintenance/replacement reserve	1.9	12.2	2.9	16.0	21.9	10.6	12.9	2.4	9.1	0.0	6.7
Operating budget	14.8	22.0	32.4	23.0	25.0	30.3	24.6	34.1	27.3	9.1	13.3
Borrowed money/line of credit	9.3	7.3	5.9	16.0	9.4	15.2	14.3	4.9	18.2	9.1	11.1
Special fundraising	20.4	12.2	20.6	23.0	25.0	10.6	22.9	24.4	0.0	0.0	8.9
Other	20.4	14.6	23.5	12.0	9.4	19.7	20.0	12.2	9.1	13.6	17.8
improvements over the next 12 months (percent of respondents):											
Cosmetic improvements	38.9	36.6	38.2	36.0	43.8	53.0	47.1	39.0	36.4	9.1	28.9
Repairs and replacements	14.8	14.6	26.5	36.0	18.8	30.7	31.4	19.5	18.2	4.5	26.7
Improvements to building operations and efficiency	13.0	29.3	32.4	20.0	25.0	28.8	38.6	24.4	27.3	4.5	24.4
Changes needed to comply with ordinances, codes or regulations	7.4	7.3	11.8	12.0	6.3	13.6	11.4	4.9	9.1	9.1	11.1
Changes needed to meet licensing or accreditation requirements	3.7	2.4	5.9	12.0	6.3	6.1	5.7	2.4	0.0	0.0	4.4
Other	3.7	4.9	5.9	0.0	3.1	6.1	8.6	2.4	0.0	4.5	2.2
No improvements planned/not responsible for building maintenance or improvements	38.9	46.3	29.4	24.0	34.4	21.2	28.6	48.8	45.5	63.6	48.9
Median total estimated cost of these maintenance or improvement needs:	$22,500	$40,000	$30,000	$20,000	$16,000	$21,071	$30,000	$22,500	$25,000	$2,500	$65,000
Mean total estimated cost of these maintenance or improvement needs:	$503,417	$187,382	$93,125	$286,542	$25,676	$71,468	$144,392	$286,581	$60,500	$6,750	$345,547
Anticipate acquiring property, undergoing new construction or a major renovation within the next year (percent of respondents):"	26.5	25.0	36.4	44.0	26.7	43.8	36.8	22.5	18.2	23.8	27.9
Median estimated cost of the project	$2,000,000	$1,025,000	$200,000	$350,000	$400,000	$525,000	$450,000	$900,000	$4,825,000	$2,200,000	$300,000
Mean estimated cost of the project	$6,148,538	$1,426,500	$965,900	$2,313,889	$1,378,571	$917,308	$1,082,207	$1,200,667	$4,825,000	$2,425,000	$1,823,455

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Number of Respondents	**(n=54)**	**(n=41)**	**(n=34)**	**(n=25)**	**(n=32)**	**(n=66)**	**(n=72)**	**(n=41)**	**(n=11)**	**(n=22)**	**(n=43)**
Plan to pay for this project using funds from (percent of respondents):											
Maintenance/replacement reserve	0.0	7.3	0.0	0.0	0.0	3.0	2.9	0.0	0.0	4.5	2.2
Operating budget	0.0	4.9	8.8	4.0	6.3	1.5	12.9	9.8	0.0	0.0	2.2
Borrowed money/line of credit	9.3	14.6	8.8	16.0	9.4	25.8	15.7	7.3	9.1	9.1	6.7
Special fundraising	18.5	9.8	11.8	40.0	12.5	12.1	20.0	17.1	9.1	13.6	13.3
Other	14.8	0.0	17.6	8.0	12.5	13.6	7.1	2.4	9.1	9.1	6.7
Most Significant Ongoing Challenge: (1 = most frequent response, 2 = second most frequent response, etc.)											
Shortage of income to meet expenses	1	3	3	-	3	-	2	2	1	-	-
Shrinking public money to support programs	-	1	-	2	-	2	-	3	4 (tie)	-	2
Inability to access foundation contributions	-	-	-	-	-	-	4	1	4 (tie)	2	-
Growing demand for service without the resources to support program growth	4	2	1	1	1	1	1	-	2	1	1
Increased accountability demands and subsequent expense	-	-	-	-	-	4	-	-	3	-	4
Inability to hire/retain qualified and motivated staff	-	-	-	3	2	3	-	-	-	3	-
Turnover or loss of key senior staff members	-	-	-	-	-	-	-	-	-	-	-
Inability to recruit/retain effective board members	2	-	2	-	-	-	-	-	-	4	3
Facilities-related issues	3	-	-	4	4	-	-	4	-	-	-
Competition for resources from other nonprofits	-	4 (tie)	4	-	-	-	3	-	4 (tie)	-	-
Not enough support for fundraising operations	-	4 (tie)	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	4 (tie)	-	-
(- = not one of the top four responses for that type of organization)											
Looking to the Future (percent of respondents)											
"Our programs and finances will remain unchanged."	14.3	20.5	25.8	12.5	25.0	12.1	7.9	17.1	0.0	4.5	16.7
"Our services will be expanded in certain key areas."	55.1	48.7	61.3	41.7	60.7	48.3	55.6	62.9	36.4	81.8	59.5
"We will need to reduce key program budgets and services."	4.1	2.6	0.0	0.0	7.1	5.2	7.9	2.9	0.0	4.5	9.5
"We will need to examine all of our existing assumptions and will probably emerge as a very different organization than what we are now."	26.5	28.2	12.9	45.8	7.1	34.5	28.6	17.1	54.5	9.1	14.3

Findings [11]

The Current Environment for Illinois Nonprofits

Current developments affecting the business practices and financial health of all nonprofits include government funding changes, reduced support from the corporate sector, competition for individual donations, greater regulation, and the increasing importance of technology. These will affect the success of nonprofits into the next century. At the same time, the tax laws governing nonprofits are under scrutiny by lawmakers. Securing resources and achieving financial stability, which have always been the sector's greatest challenges, have become even more arduous in the new environment. This section documents perceptions of and responses to this changing environment.

Respondents overwhelmingly identify their most significant ongoing challenges in the past year to be: (multiple responses allowed)

- Growing demand for services without the resources to support program growth (235 responses)
- Shortage of income to meet expenses (146 responses)
- Shrinking public money to support programs (127 responses)
- Inability to hire and/or retain qualified and motivated staff (120 responses)

Health care organizations and human service agencies represent the largest fields of service experiencing all these pressures, closely followed by arts organizations. Respondents experiencing the first three pressures were overwhelmingly from Chicago. However, most respondents facing the inability to hire and retain qualified staff were from small cities or rural areas (32.5 percent). Furthermore, approximately one-third of respondents experiencing these pressures had budgets between $1 million and $5 million, representing the largest percentage of respondents.

Forty percent of respondents (174 organizations) identify government funding cuts for their specific industry as the single most important government policy change that will affect their financial condition. This is followed by the state reorganization of human services (16 percent, 71 organizations); welfare reform (12 percent, 53 organizations); and managed care (10 percent, 44 organizations). Other cited policies include changes related to education; charitable giving; and the Community Reinvestment Act.

In looking to the future, half of respondents (224 organizations) expect that they will expand services in certain key areas, while 22 percent of respondents (99 organizations) state that they will examine all of their existing assumptions and probably emerge as very different organizations than they are now.

11 The ten Feilds of Service have been consolidated into four major categories for this section: Arts; Human Services; Health/Mental Health/Developmental/Disabilities; and Community/Economic Development/Jobs. The data correspond to Tables 3 through 5.

Furthermore, more than half of respondents have made shifts in their priorities, financial practices, or management practices to respond to government policy changes and changes in the larger nonprofit environment. Such changes include (listed in order of frequency) increased fundraising; increased strategic planning and evaluation; changing the focus, method, or means of service delivery; and increased collaboration.

More than half of respondents planning to expand services represent health care, human services, or arts organizations. More than 50 percent of them operate in Chicago and the surrounding suburbs. Nearly one-third of respondents planning to expand have budgets between $1 million and $5 million, closely followed by organizations with budgets under $250,000. (Only 4 percent of respondents [19 organizations] said they will reduce services or programs.)

Thirteen percent of respondents (59 organizations) believe that their programs and finances will remain unchanged. Organizations in metro areas other than Chicago were least likely to predict expansion of services compared with their counterparts in other areas of the state.

More than three-fourths of respondents (341 organizations) report that they are informed about or involved in advocacy concerning fiscal or legislative policies that impact their organizations or their fields. This reflects an awareness of the issues they face and the intent to effect change on their own behalf.

Respondents demonstrate efforts to equip themselves with the skills and tools necessary to respond to this changing environment. Ninety percent of respondents (397 organizations) have used technical assistance of some sort in the last three years. Technical assistance will continue to be an important resource for nonprofits as they seek new ways to improve their operations and services. However, some nonprofits may not be aware of the value of outside expertise or how to secure it. Fifty-one respondents state that they need technical assistance but don't know where to find it, and 41 respondents indicate that they know they need help, but don't know what they need. Approximately one-fourth of respondents (95 organizations) that have received technical assistance during the past three years state that they would not use technical assistance if they had to pay for it themselves. Only ten percent of respondents (44 organizations) have received no outside technical assistance in the past three years.

Table 7: Type of Technical Assistance Used (within the last three years)

	Number of respondents (multiple responses allowed)
Computer Systems	237
Accounting/Bookkeeping	210
Strategic Planning	161
Fundraising	111
Program Evaluation	97
Board Training	93

The majority of respondents (294 organizations) received technical assistance from an independent consultant. Other sources for technical assistance include auditors and certified public accountants (209 organizations); board members (105 organizations); a nonprofit resource center (82 organizations); a banker or loan officer (18 organizations); a national affiliate (6 organizations); and a governmental agency (6 organizations).

Of those respondents that have received outside technical assistance during the past three years, 86 percent (341 organizations) believe that it has helped their organization to be more effective, and 76 percent (300 organizations) state that their organization has changed as a result of technical assistance received.

The nonprofits' perceptions of their financial condition play an equally important role as the actual financial indicators in assessing their capacity to face new challenges. These perceptions will direct a nonprofit's efforts to ensure its viability and strength in the years to come. Survey respondents overwhelmingly recognize their precarious futures. More than 40 percent report concerns about the future and stated that they are financially vulnerable, with arts organizations reporting the highest level of financial vulnerability.

Survey respondents examined according to geographic location reveal notable disparities in perceptions of financial health. Organizations in metro areas other than Chicago reported the highest levels of financial health at 46.4 percent, while organizations in Chicago reported the highest levels of chronic financial problems at 24.8 percent. Perceptions of being financially healthy but vulnerable consistently ranged between 40 percent and 46 percent in all geographic areas.

Table 8: Survey Respondents' Perceptions of Financial Health

	Total Respondents n= 441
Financially healthy and not vulnerable	35.6%
Have been financially healthy to date, but feel vulnerable in the future	43.1%
Have chronic financial problems, but expect to survive	20.6%
Don't know how it will survive this year	0.5%
(no answer)	0.2%
	100.0%

Geographic Location	Chicago n=133	Suburban Chicago n=125	Other Metro Areas n=69	Small City/ Rural n=99
Financially healthy	29.3%	38.4%	46.4%	30.6%
Healthy but feel vulnerable	45.9%	40.8%	40.6%	45.9%
Chronic financial problems	24.8%	19.2%	13.0%	23.5%
Don't know how it will survive	0.0%	1.6%	0.0%	0.0%

Field of Service	Human Service n=129	Arts and Culture n=54	Health/ Mental Health/ Development Disability n=107	Community/ Economic Development n=46
Financially healthy	36.7%	31.5%	39.3%	34.8%
Healthy but feel vulnerable	42.2%	37.0%	45.8%	43.5%
Chronic financial problems	20.3%	31.5%	15.0%	19.6%
Don't know how it will survive	0.8%	0.0%	0.0%	2.2%

Annual Revenues	Less than $250,000 n=118	$250,000 to $499,999 n=75	$500,000 to $999,999 n=66	$1,000,000 to $4,999,999 n=133	More than $5,000,000 n=49
Financially healthy	29.1%	33.3%	27.3%	42.9%	46.9%
Healthy but feel vulnerable	41.0%	42.7%	53.0%	41.4%	40.8%
Chronic financial problems	29.9%	22.7%	19.7%	15.0%	12.2%
Don't know how it will survive	0.0%	1.3%	0.0%	0.8%	0.0%

Financial conditions, capacity, and challenges

This section examines income and expenses, fiscal practices, the role of government and private fundraising, and the use of credit. These factors together influence a nonprofit's ability over time to meet its mission. Analysis of various subsets according to field of service, geography, and annual revenues reveals unique circumstances and conditions in the current operating environment. Smaller nonprofits—agencies with annual revenues under $1 million—will struggle harder to grow than established agencies.

Income

Overall, respondents report modest financial gains for the 1996-97 fiscal year, although specific sub-categories experienced marked downturns over the past two years.

In the 1996-97 fiscal year, the median income of respondents was $690,010, which was a 5.3 percent increase from the median income of the prior year. This resulted in a median surplus of $9,240, or 1.3 percent of income, down slightly from a median surplus of $9,347, in 1995-96.

The Scale of the Sector

Nonprofit revenues totaled more than $11 billion in 1996. This is slightly less than one-third of the entire state budget for Illinois ($38 billion).

Health care agencies report the largest 1996-97 median income at $1,549,779. Human service organizations follow with $707,525; community and economic development agencies with $477,887; and arts and cultural organizations with $338,673.

Nonprofits in Chicago had median incomes that were 21 percent larger than their counterparts in suburban Chicago, 8 percent larger than nonprofits in other metropolitan cities, and 15 percent larger than nonprofits in rural areas. Organizations in suburban Chicago reported the lowest median income in 1996 with $606,743.

While respondents' income collectively has increased during the past two years, various sub-categories have not fared as well. Median income decreased for small city and rural nonprofits by 12.9 percent; suburban Chicago organizations by 3.4 percent; nonprofits in Chicago proper by 1.2 percent. Human services is the only field to experience a downturn in median income, with a decrease of 5.3 percent from 1995-96 to 1996-97. Median income decreased by 1.7 percent for organizations with annual revenues more than $5 million, and by 0.1 percent for agencies with annual revenues less than $250,000.

Government grants and contracts represent the single largest source of income among respondents collectively, accounting for 50.3 percent of all sources. This was followed by earned income at 25.0 percent; individual donations and memberships at 9.8 percent; foundation and corporate grants at 6.8 percent; fundraisers and events at 3.6 percent; United Ways and other federated funds at 3.0 percent; charitable gambling at 0.2 percent; and miscellaneous sources at 1.3 percent, including in-kind contributions.(See Table 9 for a comparison of government funding levels across different organizations.)

Table 9: Sources of Income*

1996-97 income sources*	All respondents
Government grants/contracts	50.3
Earned income	25.0
Individual donations/memberships	9.8
Foundation/corporate grants	6.8
Fundraisers/events	3.6
United Way/federated funds	3.0
Charitable gambling	0.2
Other	1.3

Geographic Location	Chicago n=133	Suburban Chicago n=125	Other Metro Areas n=69	Small City/ Rural n=99
1996-97 income sources*				
Government grants/contracts	50.7%	44.1%	53.0%	69.0%
Earned income	17.4%	36.3%	30.5%	18.7%
Individual donations/memberships	11.0%	7.2%	7.0%	7.4%
Foundation/corporate grants	11.9%	5.5%	1.9%	1.2%
Fundraisers/events	3.9%	3.7%	2.7%	1.5%
United Way/federated funds	3.2%	2.3%	3.2%	1.2%
Charitable gambling	0.0%	0.2%	0.7%	0.0%
Other	1.8%	0.8%	1.1%	0.9%

Field of Service	Human Service n=129	Arts and Culture n=54	Health/ Mental Health/ Development Disability n=107	Community/ Economic Development n=46
1996-97 income sources*				
Government grants/contracts	60.0%	3.9%	64.7%	56.6%
Earned income	13.9%	45.8%	23.1%	21.0%
Individual donations/memberships	9.5%	16.2%	4.0%	3.8%
Foundation/corporate grants	5.4%	24.6%	2.9%	9.1%
Fundraisers/events	3.7%	8.0%	2.8%	3.2%
United Way/federated funds	5.4%	0.0%	1.6%	2.3%
Charitable gambling	0.3%	0.0%	0.1%	0.0%
Other	1.8%	1.5%	1.0%	3.8%

Annual Revenues	Less than $250,000 n=118	$250,000 to $499,999 n=75	$500,000 to $999,999 n=66	$1,000,000 to $4,999,999 n=133	More than $5,000,000 n=49
1996-97 income sources*					
Government grants/contracts	28.1%	30.5%	35.8%	49.4%	53.6%
Earned income	22.0%	22.7%	27.1%	25.4%	25.1%
Individual donations/memberships	18.2%	14.9%	10.5%	9.5%	9.4%
Foundation/corporate grants	18.4%	15.2%	14.4%	5.9%	6.0%
Fundraisers/events	7.9%	8.0%	7.0%	5.5%	1.7%
United Way/federated funds	3.4%	6.5%	3.8%	2.4%	3.2%
Charitable gambling	0.0%	0.6%	0.4%	0.3%	0.0%
Other	2.1%	1.6%	1.0%	1.7%	0.9%

*Represents the income mix for the median respondent.

Respondents illustrate a direct relationship between size and reported reliance on government funds. Smaller nonprofits (annual revenues less than $250,000) receive approximately 28 percent of their income from government grants and contracts. This percentage steadily increased to 53.6 percent for organizations with budgets more than $5 million.

Arts and cultural organizations experienced the most substantial increase in median income, representing a 28.8 percent increase from 1995-96 to 1996-97. Health care nonprofits experienced an increase of 12.2 percent followed by community and economic development organizations with 2.5 percent. Agencies in metropolitan cities other than Chicago increased median income by 1.6 percent. All organizations with budgets larger than $250,000 experienced increases between 8 percent and 9.3 percent.

Arts and cultural organizations also report the highest levels of earned income with 45.8 percent of total income. Nonprofits in other fields of service report between 14 percent and 23 percent of total revenue coming from earned income. Geographically, organizations in suburban Chicago and metro areas other than Chicago report the most significant levels of earned income, (36.3 percent and 30.5 percent, respectively).

Foundation and corporate grants represent a substantially larger portion of income for nonprofits in Chicago (11.9 percent) than they do for organizations in suburban Chicago (5.5 percent); other cities (1.9 percent); and small city/rural areas (1.2 percent). Arts and cultural organizations report a higher reliance on foundation and corporate grants (24.6 percent) than do community and economic development agencies (9.1 percent); human service organizations (5.4 percent); and health organizations (2.9 percent).

For respondents collectively, 53 percent of income is confirmed as they enter each new fiscal year; 36 percent is expected or reasonably certain; and 11 percent is unsure or not yet identified.

Forty percent of respondents (178 organizations) expect their income mix to change substantially by the year 2000. The most frequently cited trends include an anticipated increase in earned income; a decrease in government funding; and an increase in foundation grants and private contributions. Health care agencies are most likely to predict substantial income changes (47.7 percent) compared with nonprofits in other fields of service. Organizations in Chicago and larger organizations also anticipate major changes in sources of income.

Expenses

For respondents collectively, 78 percent of their operating budget is spent directly on programs; 13 percent on administration and finance; 6 percent on plant and equipment; and 3 percent on fundraising. (See Table 10 for a detailed comparison of survey respondents' expenses according to geography, field of service, and annual revenues.) Because the survey represents self-reported data, it is unclear what expenses were calculated in each category. Expenses associated with fundraising are particularly difficult to ascertain based on self-reported percentages.

Geographically, respondents in small city and rural areas spent more on plant and equipment (7.3 percent) than their counterparts in other areas (between 4 percent and 5 percent). Small city and rural respondents also spent the least amount of money on fundraising, which accounted for just 2.2 percent of their budgets.

According to field of service, respondents in the human service and arts organizations spent the largest percentage of their budgets on administration and finance, 22 percent and 24 percent, respectively.

Organizations with budgets below $500,000 also spent a greater percentage of their income on administration and finance (between 20 percent and 25 percent). Organizations with budgets between $1 million and $5 million spent the largest percentage on direct programs and services (78.6 percent).

The number of staff employed by respondents ranged from 0.2 FTEs (full-time equivalents) to 1,850 FTEs. Median number of staff for respondents as a whole was slightly more than 10 FTEs. Arts and cultural groups have the lowest median number of staff at 3 FTEs, while health agencies have the highest at 30 FTEs. See Tables 3-5 for a comparison of staff sizes by geography, field of service, and annual revenues.

Table 10: Comparison of Respondents' Expenses*

	All Respondents n=441				
1996-97 Expenses					
Programs	72.1%				
Fundraising	3.7%				
Administration/finance	18.6%				
Plant/equipment	5.6%				
Geographic Location	**Chicago n=133**	**Suburban Chicago n=125**	**Other Metro Areas n=69**	**Small City/ Rural n=99**	
1996-97 Expenses					
Programs	71.6%	71.8%	73.2%	71.5%	
Fundraising	4.9%	3.9%	2.8%	2.2%	
Administration/finance	17.9%	18.7%	19.9%	19.0%	
Plant/equipment	5.6%	5.6%	4.1%	7.3%	
Field of Service	**Human Service n=129**	**Arts and Culture n=54**	**Health/Mental Health/ Development Disability n=107**	**Community/ Economic Development n=46**	
1996-97 Expenses					
Programs	72.6%	62.2%	76.3%	72.8%	
Fundraising	4.2%	4.8%	2.3%	3.7%	
Administration/finance	17.7%	24.0%	16.1%	17.2%	
Plant/equipment	5.4%	9.0%	5.3%	6.3%	
Annual Revenues	**Less than $250,000 n=118**	**$250,000 to $499,999 n=75**	**$500,000 to $999,999 n=66**	**$1,000,000 to $4,999,999 n=133**	**More than $5,000,000 n=49**
1996-97 Expenses					
Programs	64.3%	69.1%	72.5%	78.6%	75.9%
Fundraising	3.9%	3.6%	3.7%	3.7%	3.1%
Administration/finance	25.5%	20.5%	19.3%	13.2%	13.5%
Plant/equipment	6.3%	6.8%	4.5%	4.4%	7.5%

*Represents the expenses for the median respondent.

Surpluses, Deficits, and Cash Flow

More than half of total respondents (255 organizations) report having a deficit in at least one of the past three years, and at least 14 percent of respondents (60 organizations) have had a deficit in each of the past three years. Strategies used to handle deficits include (listed in order of frequency) using prior years' reserves; cutting expenses; increasing fundraising; borrowing money; laying off staff; and bringing a deficit forward into the next year's budget.

More than three-fourths of respondents (337 organizations) experience cash flow problems during the year, and respondents use similar strategies. Sixty-two percent (208 organizations) of the 337 organizations that experience cash flow problems state they use cash reserves; cut expenses; transfer from other funds; and delay payment of bills.

Sixty percent (203 organizations) of those that experience cash flow problems attribute them to delays in government payments. Other factors include (in order of frequency) normal business cycles; fundraising campaigns that did not meet expected goals; and unanticipated emergency expenses.

Respondents in suburban Chicago had the highest percentage of deficits and cash flow problems, with 64.8 percent reporting a deficit in the last three years and 80.8 percent reporting cash flow problems. Respondents in other areas of the state report nearly equal amounts of cash flow problems at around 75 percent. Organizations in metro areas other than Chicago report the fewest deficits, with 49.3 percent.

Human service agencies report the fewest deficits (53.5 percent) but the largest occurrence of cash flow problems (79 percent). Other fields of service report deficits and cash flow problems consistent with the overall sample. Organizations with budgets between $500,000 and $1 million report the most frequent occurrence of deficits and cash flow problems (62.1 percent and 81.8 percent, respectively), while respondents with budgets over $1 million report the fewest (46.9 and 65.3 percent, respectively).

Among survey respondents that had surpluses in the last three years, 34 percent kept the funds in their regular operating accounts to use when cash flow was tight; 21 percent put the surplus into a savings account with the intention of adding to the account annually and developing a reserve fund; and 17 percent put the funds in a special reserve to be used for a specific purpose.

Table 11: Survey Respondents' Median Incomes and Surplus/(Deficit)

All Respondents		**1995-96**	**1996-97**	**Percent Change Median Income 1995-96 to '96-97**
	median income	$ 655,556	$ 690,010	5.3%
	surplus/(deficit)*	$ 9,347	$ 9,240	
	surplus/(deficit) margin	1.4%	1.3%	
Geographic Location				
Chicago	median income	$ 731,720	$ 723,151	-1.2%
	surplus/(deficit)*	$ 7,589	$ 6,855	
	surplus/(deficit) margin	1.0%	0.9%	
Suburban Chicago	median income	$ 606,743	$ 585,886	-3.4%
	surplus/(deficit)*	$ 9,572	$ 8,228	
	surplus/(deficit) margin	1.6%	1.4%	
Other Metro Areas	median income	$ 675,114	$ 685,907	1.6%
	surplus/(deficit)*	$ 9,745	$ 12,378	
	surplus/(deficit) margin	1.4%	1.8%	
Small City/Rural	median income	$ 633,000	$ 551,438	-12.9%
	surplus/(deficit)*	$ 10,000	$ 11,695	
	surplus/(deficit) margin	1.6%	2.1%	
Field of Service				
Human Service	median income	$ 747,147	$ 707,525	-5.3%
	surplus/(deficit)*	$ 12,901	$ 12,000	
	surplus/(deficit) margin	1.7%	1.7%	
Arts and Culture	median income	$ 262,955	$ 338,673	28.8%
	surplus/(deficit)*	$ 7,219	$ 6,396	
	surplus/(deficit) margin	2.7%	1.9%	
Health/Mental Health/ Development Disabilities	median income	$ 1,381,787	$ 1,549,779	12.2%
	surplus/(deficit)*	$ 17,981	$ 12,867	
	surplus/(deficit) margin	1.3%	0.8%	
Community/Economic Development	median income	$ 466,075	$ 477,887	2.5%
	surplus/(deficit)*	$ 1,530	$ 6,288	
	surplus/(deficit) margin	0.3%	1.3%	
Annual Revenues				
Less than $250,000	median income	$ 139,753	$ 139,637	-0.1%
	surplus/(deficit)*	$ 2,749	$ 2,791	
	surplus/(deficit) margin	2.0%	2.0%	
$250,000 to $499,999	median income	$ 342,869	$ 370,316	8.0%
	surplus/(deficit)*	$ 7,644	$ 6,686	
	surplus/(deficit) margin	2.2%	1.8%	
$500,000 to $999,999	median income	$ 652,678	$ 707,138	8.3%
	surplus/(deficit)*	$ 14,763	$ 17,431	
	surplus/(deficit) margin	2.3%	2.5%	
$1,000,000 to $4,999,999	median income	$ 1,813,851	$ 1,983,273	9.3%
	surplus/(deficit)*	$ 22,780	$ 30,873	
	surplus/(deficit) margin	1.3%	1.6%	
More than $5,000,000	median income	$ 8,472,731	$ 8,327,295	-1.7%
	surplus/(deficit)*	$ 182,967	$ 109,830	
	surplus/(deficit) margin	2.2%	1.3%	

*Represents the surplus/(deficit) of the median respondent. This is not the same as the "median surplus/(deficit)."

Other Fiscal Practices and Planning

Day-to-day financial functions are handled by a bookkeeper or office manager for 38 percent of respondents (167 organizations) and by a chief financial officer for 25 percent of respondents (109 organizations). Twenty-four percent of respondents (106 organizations) rely on the Executive Director to perform such duties, while the remaining organizations rely on a staff accountant, outside accountant, or clerical staff.

Slightly more than half of respondents (230 organizations) have a dedicated financial manager on staff. These managers have a median of 15 years of related training and/or experience. Less than half of arts organizations and rural organizations have a financial manager on staff. The larger an organization, the more likely it is to have a financial manager. Respondents demonstrate a direct relationship between annual revenues and the presence of a financial manager. All respondents with annual revenues over $5 million have financial managers.

Respondents report that the most influential factor in their budgeting and planning practices is last year's programs and budgets (44 percent of respondents), followed by internal perceptions of organizational capacity and goals (28 percent of respondents) and changing needs of the community (13 percent of respondents). Other key factors include new government programs (6 percent of respondents) and funding patterns of the philanthropic community (5 percent of respondents).

Slightly more than two-thirds of respondents have a cash reserve fund for meeting projected cash shortfalls. Of these, 28 percent (82 organizations) have a reserve equivalent to four or more months' operating budget; 38 percent (112 organizations) have a reserve equivalent to two to three months' operating budget; and 34 percent (99 organizations) have a reserve equivalent to one month's operating budget or less.

The Scale of the Sector
One out of three nonprofits—1,407 organizations— in Illinois has a reserve equal to only one month's operating expenses or less.

Approximately 25 percent of respondents (109 organizations) have an endowment, ranging in size from a few thousand dollars to $40 million. Median size of respondent endowments is $574,000. Survey respondents collectively reported $227,792,963 in endowments.

Table 12: Largest Endowments Among Respondents

$40 million	Arts organization in Chicago
$31 million	Human Service organization in suburban Chicago
$18 million	"Other" organization in Chicago
$15 million	"Other" organization in suburban Chicago
$9.7 million	Human Service organization in suburban Chicago

Total: $113.7 million

The Scale of the Sector
The nonprofit sector in Illinois could potentially hold $2.2 billion in endowments.

The Role of Government

Respondents illustrate a direct relationship between government funding and certainty of income. Those respondents with higher government funding levels report that a significantly larger proportion of their budget is fully confirmed as they enter each new fiscal year compared to organizations with less reliance on government funding.

In cases when government funds represent 75 percent or more of their budget, for instance, respondents report that 65 percent of their income is confirmed and 29 percent is reasonably certain at the start of each year, compared to organizations that receive less than 25 percent of their income from the government, who report that only 18 percent of their income is confirmed while 71 percent is reasonably certain.

However, respondents also exhibit a direct relationship between level of government funding and the presence of cash flow problems created by delayed payments from government. Therefore, while government funding plays a role in financial security entering each new fiscal year, it does not guarantee ongoing stability throughout the year, and may in fact exacerbate cash flow problems.

Small city and rural respondents report the largest reliance on government funding (69 percent) compared to organizations in other geographic locations. While this same group of nonprofits also reports the largest decrease in median income (-12.9 percent) over the past two years, it was also able to maintain a median surplus of 2.1 percent, the largest surplus margin reported among the geographic subsets. This means small city and rural respondents reduced their expenses to a much greater extent than their urban/metropolitan counterparts.

Nonprofits with the most reliance on government funding are slightly less likely to have a dedicated development director on staff than organizations with the least reliance on government funds (31 percent and 33 percent, respectively).

The larger an organization, the higher its reliance on government funding (28 percent of income for organizations with annual revenues less than $250,000, up to 53.6 percent of income for organizations larger than $5 million). Larger organizations are also more likely to have borrowed money in the past 12 months (55 percent compared to 20 percent for small organizations).

The Role of Fundraising

Respondents identify multiple year general operating grants as the most beneficial type of funding to their organization, followed by program and project grants.

Table 13: Desired Types of Foundation Funding

Multiple year general operating support	34.7%
Program/project grants	27.6%
Capital/building	12.1%
Operating reserve funding	7.9%
Support for development/fundraising functions	5.6%
Endowment	5.5%
Matching grant	3.8%
Technical assistance	2.7%
	100.0%

Thirty-six percent of respondents (157 organizations) believe the most critical role of philanthropic support is to respond to requests from nonprofits. Other responses include: to supplement government funding (23 percent of respondents); to provide seed capital (11 percent of respondents); to develop its own agenda and ask for proposals to support that agenda (10 percent of respondents); and to take the place of government funding (7 percent of respondents).

Approximately one-third of respondents (159 organizations) have a dedicated development director on staff, with a median of 10 years of related training and/or experience. Organizations in the Chicago metro area are more likely to have a development director on staff compared to organizations in other cities or rural areas. Nearly half of all respondents in Chicago have a development director on staff.

According to field of service, human service organizations had the highest percentage of development directors on staff, with 42.6 percent, followed by arts and culture with 37 percent.

Respondents exhibit a direct relationship between annual revenues and the presence of a development director. Nearly three out of four respondents with annual revenues over $5 million had development directors on staff. Half of the organizations between $1 million and $5 million had development directors on staff.

The median income and staff size for nonprofits with development directors are more than twice those of the collective sample. Organizations with development directors or dedicated fundraising staff have a median staff of 28.5 full-time equivalents (FTEs) and a median 1996/97 income of $1,501,385, compared to 10 FTEs and median income of $690,010 for the entire sample.

Respondents indicate that a combination of staff and board members is typically responsible for fundraising. Most frequently relied upon is the Executive Director (39 percent of respondents); a board committee (29 percent of respondents); and a development director or dedicated fundraising staff (19 percent).

Fewer than one-third of respondents (140 organizations) have Boards of Directors in which more than 50 percent of board members are actively involved in fundraising.

The presence of a development director on staff has only marginal effects on respondents' income and surpluses compared to the overall sample. For instance, the 159 respondents with dedicated development directors on staff report a 0.1 percent decrease in median income between 1995/96 and 1996/97, compared to the 5.3 percent increase for respondents collectively. Respondents with development directors did, however, report a median surplus of 1.1 percent in 1996/97, similar to the 1.3 percent median surplus for the entire sample.

Despite their larger overall size, respondents with development directors are just as likely to report cash flow problems as the overall sample (77.4 percent compared to 76.4 percent) and are more likely to have had a deficit in the last three years (61.0 percent compared to 57.8 percent). They are, however, more likely to have a cash reserve fund in place (74.2 percent compared to 68.0 percent). Respondents with development directors report a larger amount of income from earned revenues than from government.

Table 14: Sources of Income for Respondents with Development Directors

	Overall Sample	Organizations with Development Directors
1996-97 income sources:		
Government grants/contracts	50.3	37.7
Earned income	25.0	41.6
Individual donations/memberships	9.8	7.6
Foundation/corporate grants	6.8	6.3
Fundraisers/events	3.6	2.8
United Way/federated funds	3.0	2.7
Charitable gambling	0.2	0.1
Other	1.3	1.2

Respondents with development directors report that 43 percent of their income is confirmed or certain as they enter each new year; 48.4 percent is expected or reasonably certain; and 8.6 percent is unsure or not yet identified. The overall sample report 53.2 percent; 36.3 percent, and 10.5 percent respectively. In other words, respondents with development directors have less confirmed income at the start of each year but more that is expected or reasonably certain.

Respondents with development directors have nearly identical levels of expense for fundraising as the overall sample (2.7 percent compared to 2.9 percent)

A higher percentage of respondents with fundraisers on staff report perceptions of financial health than the overall sample (43.4 percent compared to 35.6 percent), but a nearly equal percent report that they have been financially healthy to date but are vulnerable going into the future (44.7 percent compared to 43.1 percent).

The Use of Credit

Approximately 40 percent of respondents (176 organizations) have borrowed funds during the last 12 months. Slightly more than half of all organizations with annual revenues over $1 million had borrowed money in the last year. According to field of service, human service organizations had the highest percentage of nonprofits that borrowed funds (44 percent), while community and economic development organizations had the smallest (34.8 percent).

Seventy percent (123 organizations) of nonprofits who borrowed money did so in order to stabilize cash flow, followed by the purchase of equipment or a building (27 percent, 47 organizations); to start a new program (7 organizations); and for an emergency (6 organizations).

Of these, 71 percent (125 organizations) received a loan from a bank or commercial lending organization; 11 percent borrowed from a friend, board, or staff member; and 6 percent (10 organizations) received a loan from an organization with which they are affiliated, such as a national or umbrella organization. Other sources of funds include a foundation or foundation-sponsored loan program; a government agency; or an endowment or special internal fund.

Seven percent (31 organizations) of respondents indicate that they have been unable to obtain a loan or line of credit. In at least 11 instances (one-third of those unable to get credit), respondents could not satisfy collateral requirements; other barriers include:

- 9 needed a personal guarantee for the amount of the loan;
- 8 had lenders that did not have confidence in their ability to repay;
- 6 encountered lenders that were not comfortable working with nonprofits;
- 5 could not afford the rates and terms of the loan;
- 5 had boards that would not approve financing as an option; and
- 3 organizations did not know where or how to apply for a loan.

Of the 31 organizations unable to get credit, 84 percent (26 organizations) are located in the Chicago metropolitan area. Eight are community and economic development agencies; 7 are human service organizations; 6 are arts organizations; 4 are in education; 3 are health agencies; 1 is an advocacy organization; and 2 classify themselves as "other."

Those organizations that are unable to obtain a commercial loan are small: they reported a 1996/97 median income of $366,600. While this is less than half the median income for the collective sample, it was a 13 percent increase over prior year's income for these organizations. Nonetheless, while these organizations experienced growth in income over the past two years, they only broke even at the end of the fiscal year—the median surplus/(deficit) for this organization was zero. These organizations identified a shortage of income to meet expenses as their most significant ongoing challenge, followed closely by a growing demand for services without the resources to support program growth.

Facilities

Many nonprofit fields—and the study's largest respondent groups—are facilities-intensive operations. In many cases specialized facilities are required. These buildings often are important assets to the community at large as well as to the organization itself. In order to better understand the challenge of managing and maintaining facilities, it is important to examine the condition, ownership and facilities projects anticipated in the near future. One out every two nonprofits plans to undertake some facilities-related project in the next year, despite scarce resources for capital projects, internally and externally.

Table 15

Condition of Respondents' Facilities	Yes	No	Don't Know	Not Applicable
	Number of Responses	Number of Responses	Number of Responses	Number of Responses
Facility is in good or excellent condition	300	–	–	–
Facility is in barely acceptable or unacceptable condition-	35	–	–	–
Facility meets all health, fire, and safety codes	400	25	8	1
Facility complies with Americans with Disabilities Act	277	119	18	–
Facility meets licensing requirements for specific industry	277	8	18	115
Facility meets accreditation requirements for specific industry	221	17	38	140

Approximately 8 percent of respondents (35 organizations) report that their space is barely acceptable or unacceptable. This percentage is higher for arts organizations and human service agencies (11 percent and 9 percent respectively) and lower for community and economic development organizations and health-related organizations (7 percent and 5 percent respectively).

When analyzed by geographic location, those respondents in Chicago and in small city/rural areas were more likely to report unacceptable space (10 percent and 9 percent respectively) than respondents in other metro areas and suburban Chicago (8 percent and 7 percent respectively).

Ownership

Survey respondents report a combined balance sheet value of property, plant and equipment at $594,839,170, representing an average value of approximately $1.3 million. (The median value of respondents' property, plant and equipment was $197,000; 121 organizations did not respond).

Nearly 60 percent of respondents (252 organizations) report leasing an average of 13,223 square feet (median = 4,000 square feet; range = 100 to 436,000 square feet). Forty percent (179 organizations) report owning an average of 51,495 square feet (median = 22,000 square feet; range = 800 to 817,260 square feet). Slightly less than 20 percent of respondents (76 organizations) report using an average of 6,598 square feet in donated or free space (median = 2,000 square feet; range = 100 to 51,610 square feet).

The Scale of the Sector

Total Balance Sheet value of Property, Plant, and Equipment:
Nonprofits own $5.9 billion in property, plant, and equipment.

Leased Space:

Nonprofits lease 32.8 million square feet. This is more than seven times the square feet in Chicago's Sears Tower (4.4 million square feet).

Owned Space:

Nonprofits own 85.2 million square feet.

In-kind or Donated Space:

Nonprofits borrow 5.5 million square feet.

Forty percent of respondents (179 organizations) own their own space. Approximately 50 percent of responding human service organizations and health agencies own space, compared to 33 percent of community and economic development organizations and 24 percent of arts and cultural organizations.

Organizations in metro areas other than Chicago are more likely to own space (58 percent of respondents) than small city and rural organizations (46 percent), organizations in suburban Chicago (38 percent), and respondents in Chicago (32 percent).

The larger an organization, the more likely it is to own space. Less than one-third of organizations with annual revenues under $1,000,000 own their own space, while more than two-thirds of organizations larger than $1,000,000 do.

A slightly larger percentage of respondents that own their facilities report their space to be in "excellent" or "good" condition than those who do not own their facilities (74 percent compared to 69 percent).Conversely, a larger percentage of those who do not own their facilities report their space to be "barely acceptable" or "unacceptable" (10.5 percent compared to 7.8 percent).

Similarly, a larger percentage of respondents that own their facilities report themselves to be financially healthy, compared to their counterparts that do not own their facilities (40 percent compared to 33 percent).

Activity

Fifty-five percent of respondents (244 organizations) distinguish between capital and operating funds in their annual budget. (10 organizations— no response)

Twenty-six percent of respondents (116 organizations) have a replacement reserve for facilities needs in the operating budget. (13 organizations —no response)

Recent Facility-Related Projects

Sixty-five percent of respondents (288 organizations) report the following types of recent facility-related projects (multiple answers allowed):

Table 16: Recent Facility-Related Projects

Project	# Respondents
Maintenance repairs, minor renovations, small improvements	150
Acquired property or underwent new construction	72
Renovation	71
Moved	11
"Other"	3

*Note: 122 respondents reported that they have not done any recent facility-related projects.

These projects represent a combined total cost of $200.9 million. The average total cost of these projects was $752,554; the median cost was $39,675.

Table 17: Largest Recent Facilities Projects Among Respondents

$50 million	Arts organization in Chicago
$40 million	Arts organization in Chicago
$24 million	"Other" organization in suburban Chicago
$14 million	Arts organization in Chicago
$5.5 million	Community Development organization in suburban Chicago

Total: $133.5 million

These organizations used a variety of sources to pay for these projects: operating budgets (106 organizations); special fundraising (76 organizations); borrowed money/line of credit (48 organizations); a maintenance or replacement reserve (39 organizations); in-kind contributions (14 organizations); a Community Development Block Grant (12 organizations); and sources identified as "other."

Future Facility-Related Projects

Fifty-four percent of respondents (236 organizations) report that they will undertake some maintenance or building improvement projects within the next 12 months (multiple answers allowed).

Table 18: Future Facility-Related Projects

Project	# Respondents
Cosmetic improvements	175
Improvements to building operations/efficiency	114
Repairs and replacements	103
Changes to comply with ordinances/codes/regulations	43
Changes to comply with licensing/accreditation	21
Other	20

*Note: 162 respondents specifically stated that they are not planning any maintenance or improvements in the next 12 months, or are not responsible for building maintenance or improvements.

The combined total costs for these reported future projects represent $35.7 million. The average estimated cost of these improvements is $177,573; the median is $22,000.

Table 19: Largest Future Facilities Projects Among Respondents

$5 million	Arts organization in Chicago
$3 million	"Other" organization in Chicago
$2.2 million	Arts organization in other metro area
$2 million	"Other" organization in suburban Chicago
$2 million	"Other" organization in suburban Chicago

Total: $14.2 million

Major Projects Anticipated

Thirty-one percent of respondents (135 organizations) anticipate acquiring property or undergoing new construction or a major renovation within the next year. These organizations tend to be larger than the typical respondent, with a 1996/97 median income of $1,722,926, or more than twice the median for the entire sample.

The most frequently cited reason for these projects is to expand programs or accommodate new programs. Combined total cost of all anticipated projects is $233.3 million. Estimated cost per project ranges from $5,000 to $53 million, with an average of $1,881,329 (median = $680,000).

Health care agencies are somewhat more likely to anticipate acquiring property or undergoing construction (36 percent of responding health organizations) than are community and economic development agencies (30 percent), human service organizations (32 percent), or arts organizations (24 percent).

Organizations in small city/rural areas are also more likely to anticipate major facility projects (37 percent) than respondents in Chicago and other metro areas (31 percent and 30 percent respectively) and organizations in suburban Chicago (26 percent).

Of those organizations that will undertake a major facility project in the next year, more than 50 percent (72 organizations) have successfully had access to credit during the last 12 months. Six percent (8 organizations), report that they have been unable to access a loan or line of credit.

The primary ongoing challenge identified by organizations that will undertake major facility-related projects this year is a growing demand for service without the resources to support program growth.

Governance and Management

Nonprofit boards and staff share responsibility for managing and directing Illinois nonprofits. This section examines the role of four key components in managing an organization's financial health: Boards of Directors, Executive Directors, Financial Managers, and Development Directors. Results indicate that Boards and staff recognize their increasing responsibilities in their changing environment and have the experience to manage new demands.

Three-fourths of Boards of Directors (representing 334 organizations) have a finance committee. More than half of all sub-categories examined according to annual revenues, geographic location, or field of service have finance committees on their boards.

Eighty-six percent of respondents (378 organizations) report that the board is actively involved in their organization's policy setting and decision making, and 72 percent of respondents (316 organizations) state that the board is somewhat helpful but it is still the Executive Director who is most involved in strategic decision-making.

One-half of respondents indicate that all of their board members make personal financial contributions to their organization.

Slightly more than half of respondents (238 organizations) believe that they have the right board to bring them through the challenges of the future. Confidence is much higher among health organizations (60.7 percent); human service agencies (58.1 percent); and community and economic development organizations (45.7 percent) than among arts and cultural organizations (33.3 percent). The larger an organization, the higher its reported confidence in its current Board of Directors. Forty-nine organizations (11 percent of respondents) indicate that the uncertainty of their financial condition makes it difficult to recruit board members.

The median tenure of Executive Directors for respondents as a whole is 7 years. Median tenure increases with organizational size. Longevity of leadership is lower in the Chicago metropolitan area (median tenure of 5 to 6 years) than it is in other cities and rural areas (median tenure of 8 years). According to field of service, median tenure is highest for health care organizations (8 years) and lowest for economic and community development agencies (5 years).

Seventy percent of respondents (308 organizations) believe that the Executive Director is most responsible for the financial success or failure of the organization, while 18 percent (79 organizations) believe that the Board of Directors is most responsible. Other responses included a combination of board and staff (28 organizations); staff other than the Executive Director (15 organizations); and external or environmental factors (7 organizations).

Slightly more than half of respondents (230 organizations) have a dedicated financial manager on staff. These managers have a median of 15 years of related training and/or experience. Less than half of arts organizations and rural organizations have a financial manager on staff. The larger an organization, the more likely it is to have a financial manager. Respondents demonstrate a direct relationship between annual revenues and the presence of a financial manager. One hundred percent of nonprofits with annual revenues over $5 million have financial managers.

Approximately one-third of respondents (159 organizations) have a dedicated development director on staff, with a median of 10 years of related training and/or experience. Organizations in the Chicago metro area are more likely to have a fundraiser on staff compared to organizations in other cities or rural areas. Respondents exhibit a direct relationship between annual revenues and the presence of a fundraiser.

Methodology

Defining the Universe of Nonprofits
Any effort to measure key factors about a sector as diverse as nonprofit corporations will encounter challenges. The diversity of the sector itself presents the first hurdle in conducting this study. The nonprofit sector includes hospitals, symphonies, homeless shelters, child care centers, schools, museums, recreation organizations and others. While these organizations all share the common element of governance by a voluntary board of directors, they are fundamentally different in their mission and purpose. As a result of these differences, not all nonprofits face the same set of financial issues.

This report examines only those nonprofits that are likely to be confronting the financial challenges that created the impetus for this study: (sweeping changes in public and private sector practices and support of nonprofits and their constituents. This study focuses on nonprofits that provide a direct community benefit or service, with the exception of major cultural institutions, hospitals, professional associations, universities and mutual benefit organizations. The project sponsors believe these organizations have access to the different financial resources to accommodate such changes.

According to Internal Revenue Service Form 990 tax filings for 1996, Illinois contains slightly more than 5,400 registered 501(c)(3) organizations (reporting, operating public charities only). Excluding the nonprofits listed above, a total universe of 4,138 nonprofits was derived for the purposes of this study. The organizations were screened according to the National Taxonomy of Exempt Entities (NTEE) for inclusion in the sample pool. Throughout this report, the term "nonprofit sector" refers only to this universe.

Gathering Data
A 53-question survey instrument was mailed to a random sample of 2,000 nonprofits (representing 48 percent of the universe). Out of this sample, 550 respondents returned the survey, of which 441 were valid for analysis. This response rate allows a statistical confidence level of 95 percent, with a sampling error of plus or minus 4.4 percent. This participation level allows the data to be extrapolated to the total universe of 4,138.

Human service and health care organizations represent the largest category according to fields of service, accounting for 54 percent (236 organizations) of respondents. This is consistent with the composition of the nonprofit universe from which the sample was derived. The human services sector represents a broad spectrum of activities, and these organizations are part of a long history of privatized service delivery in Illinois. As a result of the size of the sector and its historic role in partnership with the state, human services are examined closely throughout the report. Arts organizations, the second largest field of respondents, also are examined closely because of their funding structure and activities.

Respondents do not reflect as closely the composition of the universe with respect to annual revenues, however. Organizations with annual revenues of $250,000 or less represent 48 percent of the sector but account for only 27 percent of the respondents. Seven percent of nonprofits in the sector have budgets larger than $5 million, while these organizations represent 11 percent of the survey respondents. The data analysis and interpretation recognize and acknowledge areas where the size of a few large organizations may distort responses.

All data contained in this report was gathered on a "self-report" basis and thus may or may not correspond to audited information of any of the responding organizations.

See Table 1 for a breakdown of survey respondents. Responses from education organizations, advocacy organizations, and "other" organizations were too few to examine thoroughly in this report.

Interpreting and Presenting the Results
Unless otherwise noted, the median response is used throughout this report in place of the average (mean). This ensures that single responses from significantly larger organizations will not inflate the collective results. The median represents the mid-point in a response range. Exactly half of the respondents reported below the median and half reported above the median.

In some instances, averages are used to describe results because the weight of the larger organizations better represents the scale of the findings. For instance, with respect to facilities, median responses under-represent the significance of the amount of space nonprofits occupy. This is also true for facilities-related expenditures. Averages better illustrate the actual dollars spent and scale of the projects described.

Extrapolating the Results
Survey responses represent statistically valid information that can be extrapolated to the universe of 4,138 nonprofits in the original sample pool. However, respondents were not sufficiently representative of all specific fields to allow extrapolation of results to those organizations. Findings in this report related to field of service, categories of revenues, or geographic location should not be used to statistically extrapolate to the broader universe of nonprofits described, but should only be used as descriptors of survey respondents.

Responses account for approximately 10 percent of the total universe. Throughout this report, in order to illustrate the implication of the findings to the universe, survey results are multiplied by ten and highlighted as "The Scale of the Sector." These extrapolations underscore the significance of the nonprofit sector in Illinois.

About the IFF, Donors Forum, and The Stevens Group

Project Sponsors
The Illinois Facilities Fund (IFF) is a statewide nonprofit community development financial institution whose purpose is to strengthen nonprofit agencies through below-market loans, capital planning and related support. Originally created to focus on human service and community development agencies, today the IFF works with a wide variety of nonprofits that serve low-income communities. The IFF has a commitment not only to making much-needed resources available to the nonprofit community, but to providing technical assistance as well. Building a financially stable nonprofit sector is at the very heart of its mission.

Since its inception in 1988, the IFF has conducted field-specific facilities and capital development research, including the 1992 study *Nonprofit Human Service Facilities in Illinois: Structure, Adequacy and Management,* by Kirsten Grønbjerg. Other studies documented the capital needs of Head Start agencies, and the housing needs of special populations such as mentally ill adults. Each of these studies has emphasized the importance of financial planning for nonprofits, and underscored the need for funders and lenders to better understand nonprofit functions, and for nonprofit managers to be better equipped to manage them.

The Donors Forum of Chicago (Forum) is a regional association of grantmakers whose mission is to promote effective and responsible philanthropy. Comprised of over 160 member grantmaking institutions and having over 750 nonprofit organizations affiliated with it, the Forum provides leadership, education, networking opportunities and research to strengthen the effectiveness of Chicago's philanthropic and nonprofit communities. This study reflects the Donors Forum's commitment to that work and to furthering the public understanding about the role and value of the nonprofit sector.

Researchers
The Stevens Group provides financial and management services to nonprofits and foundations throughout the country. Founded in 1982, The Stevens Group represents a team of 15 highly skilled individuals with professional degrees in public affairs, accounting, law, business and the social services. The Stevens Group was represented by Susan Kenny Stevens and Lisa M. Anderson for this study.

Please contact Mae Hong at the Illinois Facilities Fund with questions or comments about this study, or to receive future publications.

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Resources for Nonprofits

The following organizations provide resources, references, and literature to assist nonprofits on issues related to their financial health and capacity. This list is not comprehensive of all existing resources. Inclusion on this list does not represent an endorsement of any of these organizations by the sponsors of this study.

Local

Association of Consultants to Nonprofits
P.O. Box 4852
Chicago, IL 60680
(312) 580-1875

Bridgeway Management Systems
900 S. Deer Road
Macomb, IL 61455
(309) 837-4876

CPAs for the Public Interest
222 S. Riverside Plaza
16th Floor
Chicago, IL 60606
(312) 993-0407

Donors Forum of Chicago (Library)
208 S. LaSalle Street
Suite 735
Chicago, IL 60604
(312) 578-0175

Executive Service Corps of Chicago
30 W. Monroe Street #600
Chicago, IL 60603
(312) 580-1840

Nonprofit Financial Center
111 W. Washington Street
Suite 1221
Chicago, IL 60602
(312) 606-8250

Support Center of Chicago
3811 N. Lawndale Avenue
Chicago, IL 60618
(773) 539-4741

National

Alliance for Nonprofit Management
1899 L Street NW
6th Floor
Washington, D.C. 20036
(202) 955-8406

Center for Excellence in Nonprofits
1515 The Alameda
Suite 302
San Jose, CA 95126
(408) 294-2300

National Center for Nonprofit Boards
1-800-883-6262

National Council of Nonprofit Associations
1001 Connecticut Avenue NW
Suite 900
Washington, D.C. 20036
(202) 833-5740

Society of Nonprofit Organizations
6314 Odana Road
Suite 1
Madison, WI 53719
(608) 274-9777