Getting It Right:

How Illinois Nonprofits Manage for Success

Results from the
2004 Survey of the
Financial Health
of Illinois Nonprofits

Funding Acknowledgements
This project was funded by the McCormick Tribune Foundation and the Philanthropic Initiative.

Project Acknowledgements

Financial Health Study Advisory Committee

Joe Antolin
Vice President & Executive Director
Heartland Alliance

Lori Baas
Executive Director
Christopher House

Albert Bennett
Professor of Public Policy and Education
Roosevelt University

Genevieve Burns
Partner
Blackman, Kallick, and Bartelstein, LLP

Warren Chapman
President
Bank One Foundation

Kassie Davis
Senior Program Officer
Chicago Community Trust

Elizabeth Dietl
Turning Point Associates

Eileen Durkin
Chief Executive Officer
Victor C. Neumann Association

Dorothy Gardner
President
Michael Reese Health Trust

Grace Hou
Assistant Secretary
Illinois Department of Human Services

Bruce Karmazin
Executive Director
Lumpkin Family Foundation

Joanna Lee Lauen
Senior Program Officer
The Irving Harris Foundation

Dave McClure
Executive Director
Youth Services Bureau of Illinois Valley

Lucy Murphy
Executive Director
Community Foundation of Decatur/Macon County

Rob Paral
Consultant

Pamela Tully
Vice President, Community Building
United Way of Metropolitan Chicago

Bernie Wong
President
Chinese American Service League

The project staff would also like to thank the following individuals for their contributions to the case studies included in this report: Eileen Durkin and Michael Grene of the Neumann Association, Michael Boisvert and Helena Burke-Bevan of Griffin, Kubik, Stephens & Thompson, Inc., Kate O'Malley of Wilhelm & Conlon, Michael Menendian and Mark Yates of Raven Theatre, Walt Smith, the Executive Director of the Decatur Girls & Boys Club.

Project Staff

Susan Cahn, MA, MHS
Director of Research
Illinois Facilities Fund

Suzannah Cowell
Director of Research
Donors Forum of Chicago

Valeries S. Lies
President and CEO
Donors Forum of Chicago

Trinita Logue
President
Illinois Facilities Fund

Stephanie Hughes
Intern
Illinois Facilities Fund

Liz Sebree
Administrative Assistant
Illinois Facilities Fund

The project staff would like to thank **Elizabeth Kneebone,** the former IFF Research Project Manager, for her contributions to the study.

Survey Conducted by
LarsonAllen Public Service Group
Minneapolis, Minnesota

Susan Stevens
Principal in Charge

Mark Hinds
Consultant

Debra L. Ruegg
Principal and Senior Consultant

Graphic Design: Sam Silvio
Silvio Design Inc

Contents

Dear Colleagues:

Getting it Right: How Illinois Nonprofits Manage for Success is the second study of the financial health of Illinois nonprofits conducted by the Illinois Facilities Fund and the Donors Forum of Chicago. Once again, our report provides key financial data as well as data on management and governance practices and trends. Our conviction that successful nonprofits operate proactively in managing their relationships with clients, funders, and government has not changed since we stated it in our 1998 report.

This report describes trends over the six year period 1997 to 2003 and reports financial data from fiscal years 2001 to 2003. As in 1998, we analyzed the financial and operational diversity of the sector by collecting both factual and attitudinal data. The 2004 survey included new questions to assess changes in nonprofit capacity as well as the use of information technology. *Getting It Right* also includes three case studies which provide an in-depth look at the challenging financial and managerial decisions nonprofit executives and their boards make everyday.

The survey results indicate that Illinois residents are demanding more from their local and statewide nonprofit organizations. In turn, nonprofits are doing everything possible to maintain their programs and services without interruption.

Even though the survey covered the economically depressed years of 2001-2003, nonprofit organizations reported increased capacity in key areas such as financial management, fundraising and information technology. While economic uncertainty may be a fact of life, for many nonprofits it is often compounded by inconsistent and fragmented government and philanthropic funding. There is a role for all nonprofits to advocate for improvements in government funding systems, and for philanthropic and government funders to approach nonprofits as partners in the service delivery process.

Getting It Right also highlights the critical role that philanthropy and government have played and will continue to play in building organizational capacity. Recommendations are included not only for nonprofits, but for private funders and government leaders who will want to respond to the survey results.

The study results tell us that it is time for renewed attention and financial investment in infrastructure of the state's nonprofit sector. Such investments will enable nonprofits to both improve their financial health and prepare them to respond quickly to the inevitable future changes in the environment and community needs.

The IFF and the Donors Forum of Chicago will continue their leadership role in advocating on the issue of financial sustainability as well as the need for resources for capacity building statewide.

We hope this report and its case studies assist nonprofit executives, philanthropic leaders, and government officials as we work together to strengthen the nonprofit sector in Illinois.

Trinita Logue
President
Illinois Facilities Fund

Valerie S. Lies
President and CEO
Donors Forum of Chicago

Executive Summary

The Illinois Facilities Fund and the Donors Forum of Chicago conclude from this survey of Illinois nonprofits that these organizations are "getting it right" as they pursue the goal of financial health. Financial health was defined in 1997 as: **Maintaining programs without interruption ■ Meeting all financial commitments ■ Ending each year with positive net assets ■ Maintaining a board of directors that assumes responsibility for financial stability ■ Retaining management that integrates program and financial planning.** The survey covered the difficult period from 2001 to 2003 when most nonprofits reported that they were affected negatively by the economic recession and the ensuing reductions in individual contributions and public funding. However, respondents also reported increased capacity since 1997 in the critical areas of cash and financial management, fundraising, and information technology.

The findings will show:

1) Nonprofits have increased their financial management and are diversifying their income, but they must respond more quickly to changes in the environment.

2) Nonprofits that reported they were financially healthy depend on a board of directors that provides financial oversight and supports private fundraising efforts, but all nonprofits need to focus more on board development and training.

3) Nonprofits are also building organizational capacity by developing reserves, both cash and facilities, and investing in staff and information technology, and fundraising, but more nonprofits need to monitor program effectiveness and financial performance using benchmarks and evaluation.

Meeting these remaining challenges will require leadership on the part of executives and advocacy and partnerships with funders and government as described in the report's recommendations.

Illinois nonprofits recognize that they face uncertainty when doing business.
When asked whether or not they were financially healthy, almost half of survey respondents described their organization as "financially healthy to date, but feel vulnerable in the future." This sentiment was especially acute among nonprofits located in Other Metro Areas as opposed to Chicago and Suburban Chicago.

A third of nonprofits reported feeling financially healthy and not presently vulnerable and these nonprofits were more likely to have a cash reserve and separate capital and operating funds, employ accounting and development staff, and maintain financial benchmarks established by the board.

Within the sample, about one-fifth of respondents face significant financial challenges. They reported having chronic financial problems, but expect to survive. Similarly, 16.5 percent of respondents reported having deficits in all three years,and 17 percent reported that they "needed to examine all existing assumptions in the future and would probably emerge as a very different organization."

Illinois nonprofits experienced some deterioration in their financial condition for fiscal years 2001 to 2003.
From FY2001 to FY2002 expenses grew and income fell slightly. As a result, nonprofits reported a median operating margin[1] of 0.5 percent in FY2002. However, there was a small recovery in FY2003 and median income grew by 3.9 percent from FY2002 to FY2003. While common among nonprofits in general, both deficits and cash flow problems increased from FY2001 to FY2002 to 46 and 49 percent, respectively—increases of four and seven percent. There was, however, a 24 percent decrease in the number of organizations reporting cash flow problems since 1997. Nonprofits also reported an increase in liabilities as a percentage of income. In FY2003, cash flow problems persisted. One-third of nonprofits had borrowed money in the last 12 months in order to stabilize cash flow or complete a facilities project.

Nonprofits experienced some improvement in long-term indicators of financial health. There was a 10.3 percent increase in median net assets during the survey period.

1. The operating margin is calculated by taking the annual surplus as a percent of annual revenue or income.

The number of nonprofits that reported having an endowment increased from 25 percent in 1997 to 30 percent in 2003. Increases were seen across all types of nonprofits, from Arts and Culture to Human Services and Education. In addition, more nonprofits maintained cash reserves that were equal to two or more months of operating revenue than in 1997.

The funding sources of Illinois nonprofits have diversified since 1997, but declines and limited growth in earned income, individual donations and corporate and foundation grants raised concern. Sixty-seven nonprofits reported that they had attempted to diversify their funding during the past five years and 126 reported that it was an ongoing policy of the organization. Nonprofits tried to diversify their funding although the economic downturn limited their ability to replace government funds with other sources. The average share of funds received from government contracts and grants, earned income, foundations and corporations declined from 1997 to 2003. Government now accounts for only one-third of funding (34.3 percent), and all nonprofits, including those providing mandated health and human services, predict further declines in government funding. Foundations accounted for 10 percent and individual donations and memberships 14 percent. Fundraisers and events are projected to account for 10 percent of funds in 2007, a three and a half percent increase over 1997.

Nonprofits are focused on acquiring the resources they need to maintain their programs and grow. Almost half (46.8 percent) of nonprofits reported having a development director, a 10 percent increase since 1997. This increase has only occurred in Chicago and Suburban Chicago and has not occurred in Other Metro and Small City and Rural areas. Two-thirds of nonprofits report some or significant increase in fundraising capacity. There has been a 10 percent increase in nonprofits who reported that 50 percent of their board of directors is actively involved in fundraising and a 14 percent increase in nonprofits in which all board members personally give to the organization.

Executive directors are experienced, but a quarter will retire within the next five years. Illinois nonprofits are led by executive directors with a median of six years in the position. Twenty-six and a half percent reported that they would retire within five years. The percentage rose to 30 for Arts and Culture and Human Services nonprofits. Almost two-thirds of nonprofits reported that the executive director is responsible for the organization's financial success. Therefore, the director's role as a financial manager is critical. Given that in FY2003, nonprofits reported that only 38 percent of income was confirmed at the beginning of the fiscal year, executive directors should be prepared to make budget cuts. For nonprofits with less than $250,000 in annual revenues, only 23 percent was confirmed and an additional 25 percent was unsure, whereas nonprofits with $5 million or more in revenue reported that over 50 percent of their revenue was confirmed at the start of the year.

When responding to either cash flow problems, deficits or both, executive directors did not cut program services. Executive Directors responded to cash flow problems by cutting expenses, delaying bills, using reserves, and increasing fundraising. When faced with deficits they used the prior year's reserve, cut expenses and laid off staff, and then increased fundraising.

Illinois nonprofits reported increases in organizational capacity during the past three years, but more support is needed.

The greatest increases occurred in information technology, fundraising and overall financial management. Nonprofits also reported substantial increases in program evaluation and strategic planning. Nonetheless, less than half (46.3 percent) of nonprofits reported that they had access to sufficient capacity-building assistance. Nonprofit respondents in Other Metro Areas and Small City and Rural Areas relied almost entirely on internal resources and board members to provide assistance. Less than one-fifth of nonprofits surveyed said there was adequate foundation funding for these activities.

Strategic planning provides the framework for capacity-building.

In the past five years, 67 nonprofits implemented a strategic plan covering a three-to-five year period, thereby helping their organization integrate program and financial planning. Slightly more than half of nonprofits reported an increase in strategic planning capacity over the last three years.

There was an increase in ownership of facilities by Illinois nonprofits and more nonprofits reported that their facilities were in excellent condition.

One-third of nonprofits own all facilities and an additional 17 percent own some of the space they use. From 1997 to 2003 there was an increase in the percentage of nonprofits maintaining a facilities reserve from 27 percent to 33 percent.

Nonprofits reported that they would undertake over 200 maintenance and building improvement projects in the coming year, most of which would be funded through their operating budgets. Twenty -two percent of respondents were planning to either acquire property or undergo construction or major renovation. In order to fund these projects, most nonprofits reported that they would borrow or raise funds.

Staff and volunteers are critical to nonprofit success.

Staff and benefits were the largest budget item for Illinois nonprofits accounting for an average of 55 percent of budget. The median number of full-time equivalents (FTEs) was 15 and of those, five were part-time staff. Human Services nonprofits were much larger on average and had a median of 32 FTEs. Survey respondents with $1 million to $5 million in annual revenue employed a median of only 27 FTEs, 16 fewer than their peers did in 1997. Nonprofits also rely on volunteers to achieve their missions. They reported using a median of 15 volunteers per month, who contributed a median of 80 hours. The median figures for nonprofits with less than $250,000 in annual revenues were 10 volunteers for 78 hours per month. This suggests that these organizations use a smaller group of volunteers who work more hours per month on average.

There have been increases in the specialized staff employed by nonprofits. Sixty-nine percent of nonprofits reported that they have an in-house bookkeeper, a 16.5 percent increase since 1997. As noted earlier, 46.8 percent of nonprofits employ dedicated development staff. Thirty-eight percent of nonprofits have a dedicated management information systems staff person. However, 14 percent rely on the executive director. A quarter of nonprofits with less than $250,000 in annual revenues rely on volunteers for technology support.

Illinois nonprofits have integrated technology into their operations but need funds to improve its effectiveness.
Only a third of nonprofits reported that their information technology was up to date. Almost a quarter of nonprofits, 23.4 percent, said that they do not fully use technology. In addition to personal computers, e-mail and web sites, most nonprofits maintain a database of constituents and use accounting software.

Governance played and will continue to play an increasingly important role in achieving financial health.
While almost 90 percent of nonprofit boards of directors were actively involved in policy setting, only 25 percent said the board was responsible for the organization's financial success. Sixty-three percent of nonprofits, a 14 percent increase since 1997, reported that all board members make personal contributions. However, there is a difference between the practices of the boards of nonprofits that reported they "have the right board for the future" and those that did not. Those with "the right board for the future" were more likely to have board members actively involved in fundraising, giving personally to the organization, maintaining established financial benchmarks, and conducting periodic self-assessments, than those that reported they didn't have the right board. In other words, if all nonprofits had the right board for the future, an additional 23 percent of nonprofit boards would conduct self-assessments, an additional 18 percent would maintain financial benchmarks, and an additional 21 percent would be actively involved in fundraising.

Despite the financial challenges, nonprofits demonstrate a strong future commitment to the people of Illinois.
Most nonprofits, 59 percent, said they would expand key services in the future. Another 17 percent of nonprofits report that their program and finances will remain unchanged. They also acknowledge that economic uncertainty will play a role in whether they are able to achieve these goals. They stated that the most significant ongoing problems for the sector are the demand for services without the resources to support program growth and a shortage of income to meet expenses.

Responding to Getting It Right
Although nonprofits have implemented the capacity building recommendations that the IFF and the Donors Forum of Chicago made in 1997, these efforts need to continue. What, then, should nonprofits do to achieve their future organizational goals and what should funders and government do to support and enable these efforts?

Action steps for nonprofit executives and board members
1. *Getting It Right* documents that those nonprofits that reported being financially healthy were more likely to maintain financial benchmarks as an ongoing policy. In order to maintain financial health, a nonprofit's fiscal policies as well as its financial plans must be reviewed continually. The maintenance and monitoring of financial benchmarks are a shared responsibility of members of the board and the staff.

This contributes critical information to the financial oversight of an organization's resource development, contract management and expense management. Moreover, no approved annual operating budget should reflect a future deficit.

2. Data is power. Independent from the necessity of meeting funders' requirements, collecting the right data will tell a story that leads to better financial and management decisions internally. Technology infrastructure supports the internal capacity of nonprofits to collect and use data; management must ensure appropriate levels of funding for the maintenance and acquisition of information technology.

3. Governance matters. Nonprofits with "the right board" have better financial practices and support for fundraising in place. There is no substitute for the oversight of a committed group of volunteers who care about the mission and choose to invest their time and talents in charitable activities. Nonprofits should conduct regular analyses of their boards and governance practices, such as a board self-assessment.

4. Advocacy is a responsibility. Each nonprofit must take leadership in this area by communicating the importance of its mission, the necessity of its services, and the need for legal and regulatory improvement to its operating environment. Society depends on the leadership of the voluntary sector as the base from which public policy evolves.

Actions steps for private foundations and other funders

1. Financial health is built over time through careful investments in infrastructure, and nonprofits need support from funders in these efforts. General operating support translates into capacity-building for a range of ongoing infrastructure needs such as information technology, specialized staff including development directors, and board and staff development.

2. Recognizing the importance of governance in supporting the financial health of nonprofits, funders should target funding to improve nonprofit governance such as board training, board self-assessments, and high-quality strategic planning. This commitment will strengthen the sector overall.

3. In an environment of public scrutiny, funders and nonprofits share the responsibility of articulating need and demonstrating effectiveness of grant-funded programs. Private funders can take the lead in encouraging evaluation and outcome measurement by ensuring that resources are earmarked for it and by providing the funds to support best practices. Sharing lessons learned from the grantmaking process requires a culture of transparency and an investment of time.

Action steps for government to take when partnering with the nonprofit sector

1. According to the 2004 respondents, the primary cause of financial stress among those nonprofits that deliver services is persistent payment delays. Government must make more timely payments and view nonprofits as they do any other contractual partner. If payments are timely, financial planning and strategy can become a tool of the future rather than a reaction to the demands of the day. More important, government and nonprofits could move to a new level in their financial relationship and focus on the effective delivery of services and financing that promotes long-term provider stability.

2. Nonprofits recognize the need for compliance and reporting on government contracts and grants.

Many government agencies have well-established practices of working in partnership with nonprofits to create and improve reporting systems. Government should think of reporting as an important opportunity to work together with nonprofits to measure outcomes and achieve effectiveness.

3. Information technology is an integral component of doing business and reporting on business performance. It is an essential tool for the nonprofit financial manager and, as a result, government contracts should incorporate it into their plans for service delivery and either include it as a reasonable cost associated with service delivery or make available additional funds.

Introduction

When the Illinois Facilities Fund (IFF) and the Donors Forum of Chicago published the results of the study *Illinois Nonprofits: Building Capacity for the Next Century* eight years ago, the report concluded that nonprofits were "bracing for the future." On the verge of a new century, it was already clear that the nonprofit sector would continue to face challenges, some old and some new, and that increased capacity was needed. While no one could have foreseen the full scope of events that would shape the first years of the 21st century, nonprofits responded by meeting society's needs during difficult times. Despite a prolonged economic downturn, nonprofits continued to delight the eyes and ears, take care of the sick and the disabled, help shape neighborhoods, and educate children.

Because of the resilience of Illinois' nonprofit sector, this second study concludes that nonprofits are getting it right despite an economic and political environment that some might describe as unforgiving. *Getting It Right: How Illinois Nonprofits Manage for Success* demonstrates progress toward financial health when measured by the 1997 IFF and Donors Forum of Chicago definition. The definition includes five criteria: maintain programs without interruption, meet all financial commitments, end each year with positive net assets, maintain a board of directors that assumes responsibility for financial stability, and retain management that integrates program and financial planning. *Getting It Right* will describe increases in capacity in both financial and operational areas despite the fact that nonprofits continued to experience deficits and cash flow problems. Nonprofits attribute these problems to the economic circumstances of the years covered in the survey, fiscal years 2001-2003, as well as the inherent limitations of nonprofit financing.

While *Getting It Right* concludes that there has been progress toward financial health, the report also highlights that challenges remain and nonprofits should continue to address financial management to strengthen their operations. The findings will show:

1. Nonprofits have increased their financial management capabilities and are diversifying their income, but they must respond more quickly to changes in the environment.

2. Nonprofits that reported they were financially healthy depend on a board of directors that provides financial oversight and supports private fundraising efforts, but all nonprofits need to focus more on board development and training.

3. Nonprofits are also building organizational capacity by developing reserves, both cash and facilities, and are investing in staff, information technology and fundraising. However, more nonprofits need to monitor program effectiveness and financial performance using benchmarks and evaluation.

Meeting these remaining challenges will require leadership on the part of executives as well as advocacy and partnerships with funders and government as described in the recommendations at the conclusion of the report.

At the same time, the report's findings do not diverge significantly from the 1997 report, which concluded that nonprofits faced three significant pressures:

1. A fragile financial cycle that results in frequent deficits and cash flow problems.

2. Changing sources of financial support due to the decrease in government contracts and grants.

3. The inability to make necessary capital investments, including maintenance, because of the general lack of resources to achieve all organizational goals.

Getting It Right demonstrates that while these pressures have not abated and were aggravated recently by the economic recession, nonprofits recognize that this uncertainty is not exceptional.

The second most common reason nonprofits cited for cash flow problems was normal business cycles. Moreover, nonprofits are aware of and are responding to the emerging demands associated with greater public scrutiny of their activities.

The 1997 report emphasized sound financial practices and effective management. These are even more critical today. At least one-third of a nonprofit's income is unconfirmed at the beginning of a given fiscal year. Furthermore, *Getting It Right* will show that nonprofits have learned to address those factors that influence financial health over which they have control; they are also aware that they will inevitably face other factors over which they have limited to no control.

2. Number of Nonprofits Organizations in Illinois 1996-2004, National Center for Charitable Statistics, Center on Nonprofits and Philanthropy at the Urban Institute, 2004.

For example, consider the recent changes in how human services are funded and the loss of long-term private funders. *Getting It Right* addresses the relationship between nonprofit financial health, management, and this environment. It is organized around key management and finance topic areas in order to illustrate how management practices support financial health or sustainability.

Structure of the Report

In each section of the report, the results for the entire survey sample are presented first. They are followed by highlights of the findings by geography, type, and size. A description of each of these subcategories appears in the next section of the report, entitled Survey History and Methodology. The complete results for each subcategory are presented in tabular form as an appendix.

This year's report also includes detailed case studies on how Illinois nonprofits have managed through complex challenges or responded to unique opportunities. The first case study examines how Chicago's Neumann Association engineered a financial turnaround from a $1.2 million deficit. Second, Raven Theatre was faced with an unexpected relocation opportunity in 2002, and raised the funds to move from a storefront into a two-theatre complex. The third case study describes how the Boys & Girls Club of Decatur struggles to expand its services to meet the needs of additional children attending a new elementary school next door.

Survey Background

The Illinois nonprofit sector has grown significantly in the past eight years. According to the National Center for Charitable Statistics, Illinois nonprofits, also referred to as public charities, account for $60 billion in gross receipts annually. Public charities, one component of the nonprofit sector, are also referred to as 501(c)(3) organizations. There are almost 32,000 Illinois public charities currently registered with the Internal Revenue Service, a 43 percent increase from 1996. The number of arts and culture, education, and human service organizations almost doubled. Only one-third of registered public charities file a Form 990 with the IRS and are, therefore, considered registered and reporting. These nonprofits were surveyed for this report and only increased by five percent to 12,553 since 1996. Almost one-third of these reporting public charities provide human services, such as care for the developmentally disabled or children.[2]

History of the Survey

As noted above, in 1997 the IFF and the Donors Forum of Chicago conducted the first survey of the financial status of Illinois nonprofits. *Illinois Nonprofits: Building Capacity for the Next Century* examined budget information and financial and management practices, and provided a financial profile of the sector. Comprehensive recommendations for the sector and its stakeholders were also provided. From its inception the IFF and Donors Forum of Chicago intended to conduct follow-up surveys in order to monitor financial trends. Funding for the follow-up study was secured and Illinois nonprofits were surveyed again in Fall 2004 on their recent financial position and how they were responding to the current environment.

The 2004 survey covered three fiscal years of operation from 2001 through 2003. In addition to obtaining data that would enable trending and also document changes in capacity, questions were added that addressed information technology and specific operational areas such as fundraising. The survey was conducted during September and October and compiled in 2005.

Survey Methodology

The 2004 survey of the financial health of Illinois nonprofits studied a sample of 501(c)(3) public charities taken from the Core Files of the National Center for Charitable Statistics. The list included 7,947 organizations in Illinois. Using the National Taxonomy of Exempt Entities (NTEE), nonprofits meeting any of the following criteria were excluded:

1. Did not provide direct service.
2. Were religion-related.
3. Provided services to a select membership or for the mutual benefit of the membership, such as parent teacher associations, scouting organizations, and retirement and pension funds.

Out of the 7,451 nonprofit organizations remaining, surveys were sent to a random sample of 2,500 organizations. The final sample of 257 responding nonprofits represented a 10.3 percent response rate. It is statistically significant at a 95 percent confidence level and has a sampling error of plus or minus six percent.

Data presented for the individual subcategories—geographic area served, field of interest and size as determined by annual revenue—are not statistically significant; however, the information is reported to provide insight into the variations among the nonprofit respondents. This information allows individual nonprofits to compare and contrast their experience with that of their peers, and helps funders and government gain a better understanding of the diversity present in the Illinois nonprofit sector.

Subcategory Definitions

Geography or Area Served

Survey respondents were asked to identify their primary area of service from four different choices: Chicago, Suburban Chicago, Other Metro Areas, and Small City or Rural Areas. Other Metro Areas were defined as the nine standard metropolitan statistical areas (MSAs), at least one urbanized area of 50,000 or more inhabitants, excluding Chicago. The nine MSAs in Illinois other than Chicago are: Bloomington/Normal, Champaign/Urbana, Danville, Moline/Rock Island, Decatur, Kankakee/Bradley, Peoria, Rockford, and Springfield. Findings by subcategory were reported for each of the four geographic areas listed.

A small subgroup of organizations did not fall within one of the geographic areas described above because they provided services in more than one area, statewide, or outside of Illinois. These nonprofits were grouped together under the heading of "Other." However, because there were so few respondents in this category, their responses were not reported as a separate subgroup. Their responses were included in the results for the total sample.

Type

The NTEE provides the standard descriptive categories for nonprofit fields of interest. There are 10 major categories. As shown in Table 1, this survey reports on five major categories: Arts, Culture & Humanities; Health Care; Human Services; Public & Societal Benefit;

Table 1 2004 Survey Sample by Type and Compared to Registered and Reporting Illinois Public Charities

	Arts, Culture & Humanities	Health Care	Human Services	Public & Societal Benefit	Education	Other	Total
Percent of 2004 Survey Sample	16.0%	14.8	38.1	12.5	16.7	1.9	100.0%
2004 Percent of Registered and Reporting Illinois Public Charities	10.7%	13.0	30.8	13.6	18.0	13.9	100.0%

3. Gronbjerg, Kristen A. and Child, Curtis. Illinois Nonprofits: A Profile of Charities and Advocacy Organizations. The Center on Philanthropy at Indiana University and The School of Public & Environmental Affairs at Indiana University. Donors Forum of Chicago. Chicago. 2003.

and Education. The remaining three categories not excluded from the universe were combined into the Other category.

Size

As noted above, nonprofit size is measured by annual revenue. Survey respondents were sorted into the revenue categories based on the reported FY2003 revenue.

Sample Distribution

The distribution of the sample was compared to the 1997 survey sample and to the total universe for Illinois reported by the NCCS to determine the extent to which the respondents were representative. The survey sample mirrored the fields of service of registered nonprofits with the exception of Arts, Human Services and Other agencies. (See Table 1) The difference in the percentages of Other nonprofits may have reflected the exclusion of religion-related and mutual benefit organizations from the survey sample.

The 2004 survey sample included a higher percentage of mid-size and very large nonprofits as compared with both the 1997 survey and the 2003 Donors Forum of Chicago report, *Illinois Nonprofits: A Profile of Charities and Advocacy Organizations.*[3] In 1997, the IFF assisted nonprofits in completing the survey over the phone, which may have facilitated the participation of small nonprofits; whereas in 2004 larger nonprofits may have been more likely to respond because they had the necessary organizational capacity to complete a comprehensive survey without assistance.

The data on median age presented in Table 2 indicate that nonprofits with less than $250,000 in annual revenue were considerably younger. There were 12 nonprofits in the sample that had been operating less than five years. The more limited response from start-up nonprofits may have indicated that they do not have the resources, personnel or time to participate in a voluntary survey. A more detailed description of the methodology can be found in Appendix A.

Table 2 **2004 Survey Sample by Age and Size**

Revenue	Median Age of Organizations	Percent of 2004 Survey Sample
Under $250,000	16	24.5%
$250,000 to $499,999	25	13.2
$500,000 to $999,999	32	10.9
$1,000,000 to $4,999,999	32	20.6
More than $5,000,000	38	21.0
No response	N/A	9.7

Environmental and Financial Trends

The 21st century began with economic and political events that have had a significant effect on the nonprofit sector. It is important to consider these broader environmental trends when examining the sector. Some of these trends, such as the growth of the Latino population, have been emerging for several decades whereas others, such as changes in government support and the structure of government programs, are more recent.

Many organizations in the sector and in the survey relied and continue to rely on government funding and provide direct service whose full costs cannot be recouped through fees. Due to these environmental changes, more nonprofits today must rely on charitable contributions to accomplish their missions. In addition, as with all corporations, nonprofits and their funders have come under increased public scrutiny.

1997-2001

The full impact of the national crisis of 2001 and its local repercussions on nonprofits cannot be understood without positioning nonprofits as they began fiscal year 2001. Although the survey did not collect financial data on these years, there were eight organizations that were included in both random samples for which there is comparative financial information from 1996 to 2001. In addition, the economic and political context is known.

National Trends

In the late 90's, the nonprofit sector faced countervailing environmental forces. On the one hand, there was a broad economic expansion that was augmented by the growth of the technology sector and the rise of the stock market. However, this growth was accompanied by a growing distrust of big government that had begun with bipartisan support for restructuring the public funding of human services, through welfare reform and managed care, in the second term of the Clinton presidency. Not only were services to be provided in new ways, but the definition of who was eligible to receive services was also changed. Simultaneously, there was a shift in the role that government played in supporting the arts and economic and community development. The election of George Bush in 2000 resulted in further changes in the way government and nonprofits delivered critical services to disadvantaged populations. Some of these efforts emerged from the newly formed White House Office of Faith-based and Community Initiatives, but with decreased appropriations of Federal dollars. In addition, there were calls for the elimination of estate taxes that would ultimately create a disincentive to charitable giving, thereby decreasing the ability of foundations to support nonprofits.

Trends in Illinois

The Illinois economy was strong in 1998 when Governor George Ryan was elected. In May 1999, he signed Illinois FIRST, the Fund for Infrastructure, Roads, Schools and Transit, into law. The five-year $6.3 billion fund provided $1.6 billion that included facilities funding for nonprofits. It also leveraged an additional $6 billion in Federal funds.

The experience of the sub-sample of eight Illinois nonprofits that participated in both surveys illustrates that 1997 to 2001 was not a period of growth for all nonprofits. The net assets only grew for four of the eight organizations and fell slightly for the remainder from 1997 to 2001. However, when the median among the eight organizations is examined, it becomes clear that that the growth in income exceeded the growth in expenses during that time period.

In addition, those organizations that posted a surplus in 1997 had much larger operating margins than the median of 1.3 percent in 1997. While double-digit operating margins may reflect atypical income patterns, a few of the organizations reported margins as big as five and nine percent. Among the eight were four human services organizations whose financial data for FY2001 indicated that they already faced significant challenges. Three out of the four posted deficits, and one had contracted in size and reported that it did not know how it would survive.

Demographic Shifts Continue

Two additional environmental factors are Illinois' population trends and its economic climate. Overall the State's population is stable, but there have been considerable changes within different population groups and different geographic areas.

The Latino population statewide has more than doubled since 1990 and now is equal in size to the African-American population. Latinos also represent a relatively young population that needs family services and supports.[4] It is even larger when one includes undocumented citizens, who also require support services but may be ineligible for government-funded services.

These individuals are served by nonprofits that seek private charitable contributions to fund these programs. The Asian population is also growing and its communities are becoming more diverse. Of particular importance to nonprofits is the fact that many immigrants coming to Illinois are bypassing Chicago as a port of entry and moving directly to suburban communities. Conversely, in Illinois' small cities and rural areas there are fewer young people due to aging as well as changes in the availability of employment.

As a result of these trends, nonprofits have experienced changes in the populations that they have traditionally served since the first financial health survey.

4. Zurita, M. Latino Population in Illinois and Metropolitan Chicago: Young and Growing Fast! Latino Research @ ND. Vol. 1, No. 1, May 2003.

5. U.S. Census Bureau. 2002 American Community Survey Profile. Population and Housing Profile: Illinois.

Economic Recession and Illinois Nonprofits

The economic recession of the past few years, like welfare reform in the mid-1990s, has been the economic backdrop against which nonprofits operate. It has caused further cuts in government support despite the 2002 election of a Democratic governor, whose party shares a common agenda with nonprofits in arts, education, health care and senior services. Overall state poverty rates have remained stable since 1997 and there has been a decrease in the number of children under five years of age living in poverty. However, in 2002, only seven percent of residents in the Chicago metropolitan area lived in poverty compared with 12 percent downstate. Poverty rates do not measure the more subtle erosion in financial security that has affected broader segments of the population. Most nonprofits rely on government and earned income and individual contributions; these in turn rely on a combination of general positive trends in household income and consumer confidence. From 2000 to 2002, median family income in Illinois fell by two percent in real dollars from $58,044 to $56,716.[5] The range of circumstances in which many Illinoisans live underscores the fact that nonprofits face different challenges across the state. The results of the weak economy on Illinois nonprofits are reported in Table 3.

As the data show, the effect was sizeable and is evidenced by the high percentage of 2004 survey respondents that report some to significant negative impact of economic factors on their organizations. (See Table 3)

The challenge for Illinois nonprofits is meeting the increased demands for service brought on by these factors while maintaining financial health.

Table 3 Top Environmental Factors that Had a Negative Impact on Illinois Nonprofits

Environmental Factor	Significant Negative Impact	Some Negative Impact	Total
Economic Recession	27.6%	56.4%	84.0%
Reduction in Individual Contributions	17.4	44.6	62.0
Restructuring of Public Sector Support	10.0	41.0	51.0
Reduction in Federal Funds	14.9	32.4	47.3

Evaluating Nonprofit Financial Health

Nonprofit financial health refers to the combination of financial, management and governance criteria that increase the likelihood that a nonprofit will achieve its mission and sustain its operation.

The criteria that were introduced earlier are listed again in Figure 1 below. Many financial and operating indicators can be used to evaluate the overall performance of a nonprofit with regards to these criteria. In fact, most of the questions included on the survey, not only the financial ones, contribute to evaluating financial health. For example, having a development director or fundraiser on staff helps a nonprofit achieve the first three criteria. When financial health is broadly defined, it cannot be measured using only audited financial statements. Despite varied success and year-to-year shifts in performance, nonprofits and their boards should consider these criteria and select a group of indicators to monitor both their finances and operations.

The responses to the survey questions can be considered both as individual performance indicators and as contributors to a nonprofit's overall financial health. *Getting It Right* identifies the important trends and whether they point toward progress in achieving financial health across the nonprofit sector. Earlier, this report mentioned that the 2004 survey included a section on information technology. Developments in information technology since the 1997 survey enable even the smallest organizations to collect financial and program data easily. Nonprofits need to analyze the financial and program data they collect and use it to hold discussions with their boards and funders about strategic direction, financial health and organizational effectiveness.

Figure 1 Definition of Financial Health
Maintain programs without interruption
Meet all financial commitments
End each year with positive net assets
Maintain a board of directors that assumes responsibility for financial stability
Retain management that integrates program and financial planning

Nonprofit Perceptions of Financial Health in 2004

Many nonprofits can and do operate without meeting all of the above criteria for financial health. Because nonprofits operate under financial circumstances that are as diverse as the services they provide, these criteria are understood as broad strategic goals to be pursued rather than standards. In addition, nonprofits respond differently to the economic uncertainties many agencies face such as unexpected reductions in projected income or the need for borrowing to stabilize cash flow. Because nonprofits respond differently, the survey asks nonprofits to select the statement that best describes their organization's individual financial health:

1. Financially healthy and not presently vulnerable.

2. Have been financially healthy to date, but feel vulnerable in the future.

3. Have chronic financial problems, but expect to survive.

4. Don't know how we will survive this year.

As in 1997, the results suggest that most nonprofits are working to achieve financial health and stability and overall perceptions of financial health have not changed greatly for Illinois' nonprofit sector. Once again, one-third of nonprofits report that they are financially healthy and slightly more than 40 percent report that they feel vulnerable. Given the considerable environmental changes during the last eight years, a greater shift in the results might have been expected. For example, the economic downturn might have caused more nonprofits to feel vulnerable. On the other hand, the survey results regarding current financial and management practices will demonstrate that the growing importance of financial management has not eluded the nonprofit sector. This expanded capacity might have brought about an increase in the percentage of nonprofits that perceive themselves as financially healthy.

Although the individual results for the subcategories are not representative, they provide insight into this diverse sector. First, nonprofits in Other Metro Areas were less likely to report that they were financially healthy and more likely to report financially healthy, but feeling vulnerable. Figure 3 shows the marked shift for Other Metro Areas that represents a 16 percent increase from 1997 when almost half of respondents reported feeling financially healthy and not presently vulnerable. This contrasts with trends among Chicago respondents where there was a seven percent increase in the number of nonprofits reporting that they were financially healthy. There was also a 7.3 percent decrease in the number of Chicago nonprofits reporting chronic financial problems between FY1997 and FY2003 from 24.8 percent to 17.5 percent.

Among the different types of nonprofits, Health Care and Human Services agencies are larger and are less likely to report having chronic financial problems. More nonprofits that provide services for Public & Societal Benefit or Education reported feeling vulnerable in 2003. However, it is important to remember that there is also diversity within each of the categories: there are nonprofits that are growing and some that are struggling.

More respondents that report chronic financial problems have revenues of less than $500,000 annually. Fifty-three percent of nonprofits between $1 million and $5 million report that they are vulnerable. The largest nonprofits with over $5 million in revenue have more financial resources; therefore, it is not surprising that 52.8 percent report that they are financially healthy—17 percent greater than any other group. But even then a full 40 percent of these larger nonprofits feel vulnerable in spite of their size.

Figure 2 Nonprofit Perceptions of Their Financial Health, 1997 & 2004

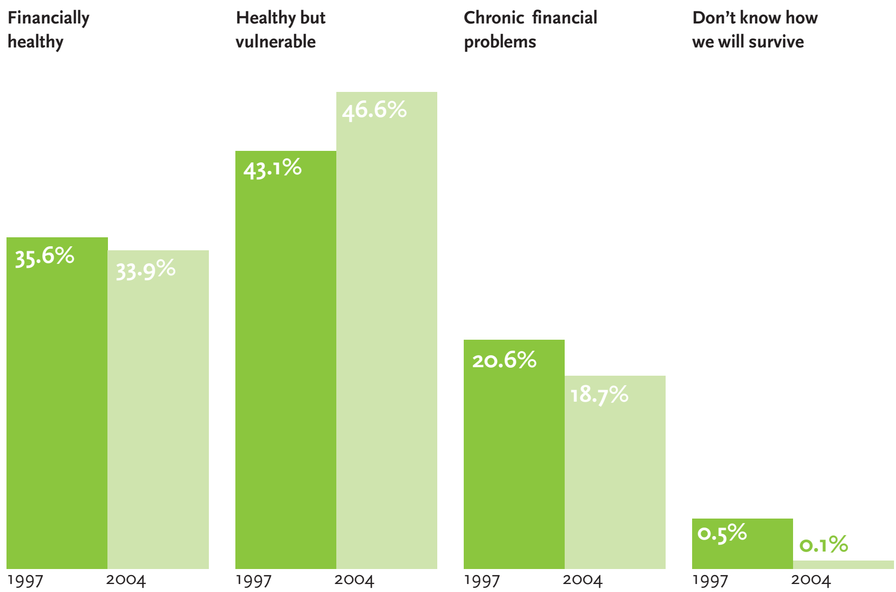
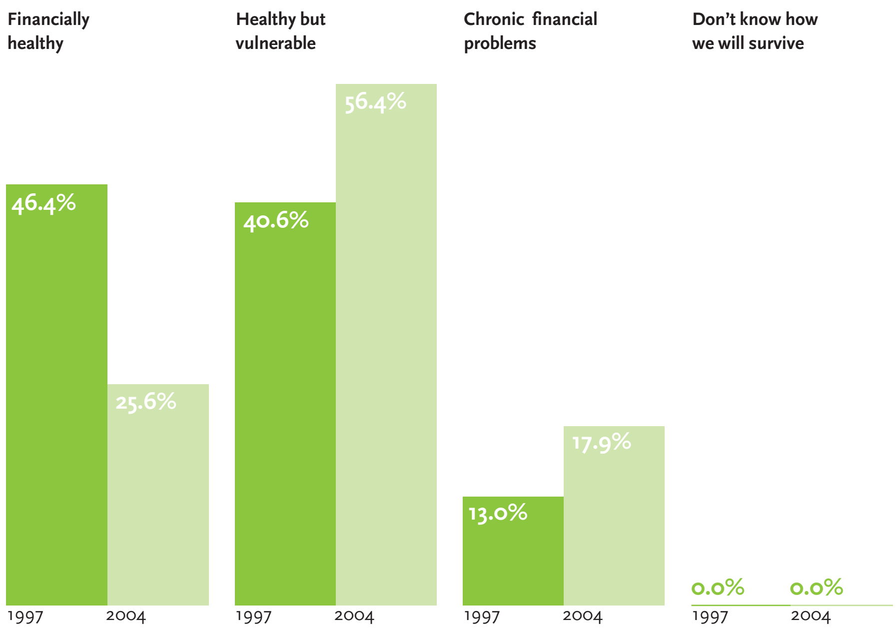


Figure 3 Nonprofit Perceptions of Their Financial Health in Other Metro Areas, 1997 & 2004



Nonprofit Financials: Trends from FY2001–FY2003

An examination of audited nonprofit financial data[6] will show that Illinois nonprofits experienced some deterioration in their financial conditions during the survey period. The impact of the events of 2001 and the response of the nonprofit sector is depicted in the Figure 4 using financial indicators and information on financial conditions provided by survey respondents. The graph reports trends in the median nonprofit operating margin and liabilities as a percent of income as compared to the frequency of deficits and cash flow problems.[7]

6. The financial analysis is based on 198 responses from the nonprofits that provided complete financial data for all three years.

7. It should be noted that the data was reported by the respondents' fiscal year. Therefore, some nonprofits surveyed had closed their books for 2001 on June 30, 2001 and were in fiscal year 2002 on September 11, 2001.

Figure 4 Financial Trends from FY2001–FY2003

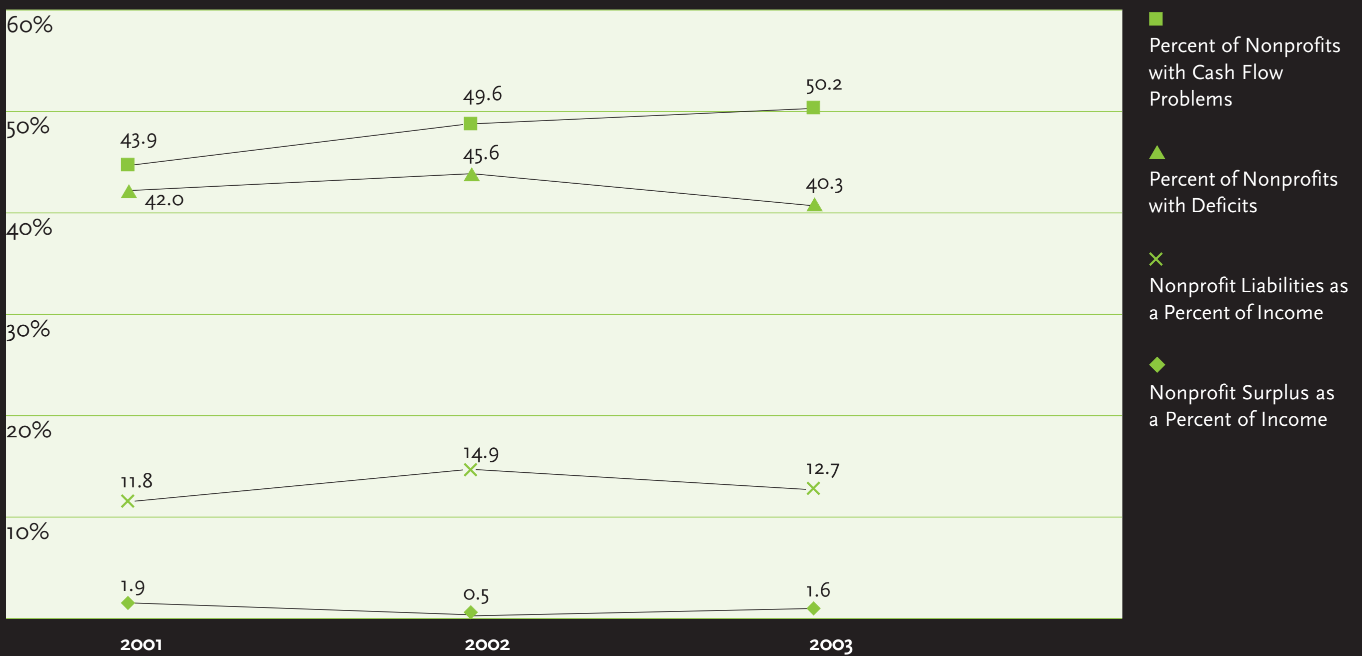


Table 4 Nonprofit Financial Data, Median and Percent Change, FY2001- FY2003

	FY2001	FY 2002	FY 2003	FY01 to FY02	FY02 to FY03
Income (median)	$1,085,459	$1,074,666	$1,116,908	-1.0%	3.9%
Expense (median)	$1,116,530	$1,175,594	$1,127,906	5.3	-4.1
Surplus/Deficit (median)	$18,294	$2,073	$9,837	-88.7	374.6
Assets (median)	$913,732	$988,784	$1,007,424	8.2	1.9
Liabilities (median)	$180,513	$209,198	$215,159	15.9	2.8
Net Assets (median)	$628,961	$658,831	$695,130	4.7	5.5

- The position of the sector in 2001 reflected the fact that respondents were operating with small margins and the stock market crash early in the winter of 2001 negatively affected government payments and private contributions.

- Deficits and cash flow problems were prevalent in 2001.

Nonprofits were either unable to adjust quickly enough as the economic recession deepened or had committed to provide services but could not raise the funds to do so. As a result, in 2002 operating margins decreased to almost zero while liabilities, deficits and cash flow problems increased. By fiscal year 2003, many nonprofits had completed a financial correction and there was a decrease of 5.3 percent in the frequency of deficits and an increase in operating margins to 1.6 percent, close to the 2001 levels. The slow economic recovery continued to cause fiscal crises for the State, and it is not surprising that cash flow problems increased above the 2002 levels in fiscal year 2003.

These data show that there was a lag in response to the worsening economy. This can also be seen in a subtle difference in the response to deficits between 2001 and the other years. In fiscal year 2001, nonprofits reported handling deficits by using reserves and then fundraising before cutting expenses and laying off staff, whereas in FY2002 and FY2003 the top two strategies were using reserves and cutting expenses. It is also important to consider that nonprofits had limited options when responding in 2001 due to small operating margins and restrictions on asset accumulation as well as the use of government funds. Not surprisingly, nonprofits often chose to continue operating in deficit rather than eliminate programs and/or turn away clients.

When the data for the different subcategories are examined, it becomes clear that certain groups of nonprofits diverged from the pattern above.

The nonprofits that responded from Chicago had considerably higher operating margins in 2002. In FY2003 Suburban Chicago nonprofits posted larger operating margins of 3.4 percent. Small City and Rural Areas nonprofits were the only group to see further declines in their operating margins from .7 to .2 percent from FY2002 to FY2003. Education nonprofits were able to maintain higher operating margins during the entire survey period, and Arts and Culture organizations reported a higher operating margin in FY2003 than in FY2001. Nonprofits with less than $250,000 in annual revenue had a median surplus of zero in FY2002. However, the group that fared the worst was nonprofits with $500,000 to $999,999 in annual revenue. These posted median operating margins that were negative in FY2002 and FY2003, which indicates that most of these agencies were in deficit after FY2001.

Figure 4 provided an important context for a discussion of the financial data reported on the survey. Table 4 reports the median responses for the audited financial data requested from survey respondents. All figures have been adjusted for inflation and are reported in 2003 dollars. The data are unique to each category and there is no mathematical relationship between the financial figures reported. Once again, any figures reported for the subcategories are not statistically significant. The following analysis refers to the numbers reported in Table 4 and in the appendices for the subcategories.

Trends in Nonprofit Income

The FY2003 median income was $1.1 million. There was a broad range in reported incomes among survey respondents, from $235 to $469,768,960. Table 4 above shows modest growth in income from FY2002 to FY2003, but the decline in FY2001 kept overall growth to only 2.9 percent for the three year period.

There was also substantial variation in income and its change for the different subcategories. For example, Chicago nonprofits reported income growth of 17 percent from FY2001 to FY2003 whereas there was a decrease of five percent in Other Metro Areas. The data by type show that survey respondents in Education experienced the greatest deterioration in income of any group, a 22 percent decline from FY2001-FY2003. On the other hand, Public & Societal Benefit nonprofits reported a substantial growth in income of 25 percent.

The financial data presented in this report illustrate that Health Care and Human Service nonprofits are in a different financial position compared to other groups. Health care organizations that are classified as 501(c)(3) not only receive government payments through Medicare and Medicaid, but also receive third-party payments when treating insured patients. The location of the provider determines the primary source of revenue. Federally qualified health centers are located in medically underserved areas and provide most care to the uninsured or Medicaid patients. Although the survey did not ask health care providers about the insurance status of their patient population, there were some large providers in the sample that may receive a substantial percentage of their revenue from private insurance payments. Similarly, the larger human service agencies included in the survey provide care to dependents of the State and most of their income is guaranteed.

The different types of nonprofits included in the survey sample are concentrated by size. More Arts, Education, and Public & Societal Benefit groups are among the smaller nonprofits with median incomes between $250,000 and $600,000. The group of nonprofits with less than $250,000 in annual revenue experienced a three percent decrease from FY2001 to FY2002 and a less than one percent increase in the next year. Nonprofits between $500,000 and $1 million in annual revenue saw growth of nine percent in their income. This was the largest increase experienced when respondents are grouped by size.

Trends in Nonprofit Expenses, Surpluses and Deficits

The total reported FY2003 expenses ranged from $220 to $469,933,295. In 1997, the IFF and the Donors Forum of Chicago recommended that nonprofits manage their expenses by developing financial plans under different revenue scenarios. As nonprofits grow so do their fixed costs, thereby limiting their ability to cut costs rapidly, especially staff, in response to declines in income.

- The modest positive income trend of 2.9 percent was not sufficient to shield Illinois nonprofits entirely from the adverse conditions that arose in 2001.

- The decrease in median expenses from FY2002 to FY2003 provides additional data to support a delayed response to the economic downturn in 2001.

Nonprofits may have recognized in 2001 that they needed to control their expenses given increased economic uncertainty, but it is not evident in the financial data.

The expense data by subcategory highlight how challenging it is for nonprofits to meet their budgets. Outside Chicago, increases in median expenses were not covered by comparable increases in median annual income. Expenses increased the most for nonprofits in Small City and Rural Areas, at 11 percent from FY2001-FY2003. Arts and Culture had the smallest increase at 4.9 percent, whereas Public and Societal Benefit had the largest, 23 percent. Human Services expenses grew by 16.3 percent, but were covered by increases in income.

Although there have been program changes and cutbacks in government funding, the Human Services nonprofits in the survey were able to expand. When the responses are grouped by nonprofit size, the data show that the three groups between $250,000 and $499,999 all reported increases in their median expenses greater than 15 percent. Moreover, for organizations with $250,000 to $499,999 in annual revenue, median expense growth exceeded the growth in median revenue by 13.2 percent.

Surpluses and Deficits

There was a significant decrease of 89 percent in the median surplus from FY2001 to FY2002 that is shown in Table 4.

- This occurred when nonprofit expenses grew by 5.3 percent while income fell by one percent.
- The events of September 11, 2001 deepened the economic recession and nonprofits' already slim operating margins fell even further.

Given these trends, it was not unforeseen that more agencies would post deficits in 2002, as reported earlier.

Many organizations were able to rebuild during FY2002-FY2003. At the end of FY2003, the median surplus was $9,837. However, this figure was half the size of the median surplus in FY2001.

Illinois nonprofits report on the survey that they used existing cash reserves, cut expenses and increased fundraising to respond to the economic downturn and the ensuing increases in deficits and cash flow problems.

While nonprofits located in the different geographic areas all saw some decreases in median surpluses from FY2001-FY2002, in Chicago there were smaller decreases than elsewhere. Small City and Rural Area nonprofits were better off in FY2001 and FY2002, but they had a median surplus that was only one-third as big as FY2001 at the end of FY2003. The Health Care nonprofits included in the survey are the one group that has not experienced financial deterioration. They reported a 450 percent increase in the median surplus during the same time period. As discussed earlier, this growth may be attributable to the inclusion of health care providers that treat mostly insured patients. Yet this contrasts sharply with the experience of Public & Societal Benefit nonprofits that reported a median surplus just under $300 in FY2001, and by FY2003 reported a median deficit of almost $11,000. When the data are tabulated by size, nonprofits between $500,000 and $999,999 in annual revenue were the only ones to post deficits. Moreover, the median deficit grew from $3,000 in FY2002 to more than $10,000 in FY2003.

Frequency of Deficits

The results of both the 1997 and 2004 survey demonstrate that deficits are common. Figure 5 illustrates that the majority of Illinois nonprofits, 65 percent, reported having at least one annual deficit during the recent three-year period. The number of nonprofits with a deficit in all three years is comparable to the number of organizations that reported having chronic financial problems. These data vary from those presented in Figure 5 below, where the percent of nonprofits with deficits in each of the survey years is reported.

Cash Flow

Given that in FY2001 the median income did not grow, and from FY2001 to FY2002 the median surplus decreased by almost 90 percent, the slow but steady increase from 43.9 to 50.2 percent in the number of nonprofits with cash flow problems for the survey period could have been expected. However, due to the period of economic growth prior to 2001 there has also been a 25 percent decrease in the prevalence of cash flow problems among nonprofits since the 1997 survey. The overall increase in financial management reported by nonprofits when surveyed on capacity-building may also have contributed.
The top reasons for cash flow problems cited by nonprofits are:

1. Delays in government payments;
2. Normal business cycles;
3. Unmet fundraising goals;
4. A prior year deficit.

Table 5
Cash Flow Problems, Percent by Year

	Cash Flow Problems	
	Yes	No
2003	50.2%	49.8%
2002	49.6	50.4
2001	43.9	56.1

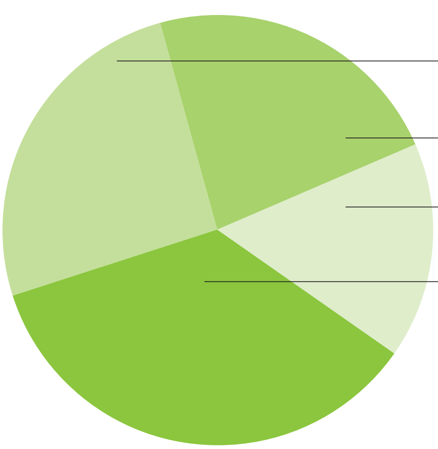
Assets, Liabilities and Net Assets

The asset position of nonprofits appeared relatively strong during the survey period despite the increase in liabilities from 2001 to 2002. Because many of the government contracts and contributions received by nonprofits are restricted, these organizations have capital that cannot be used when there is a shortage of operating cash.[8] The survey data suggest that this occurred from FY2001 to FY2002 when the increase in liabilities was twice the growth in assets. In the next year there was some improvement, but increases in liabilities still exceeded increases in assets. Illinois nonprofits drew against cash reserves. From FY2001 to FY2003 the median reported net assets grew by 10 percent from $628,961 to $695,130 as shown in Table 4 on page 29.

Cash Reserves and Endowments

Maintaining a cash reserve and establishing an endowment are strategies for achieving and maintaining financial health in an uncertain environment. The 1997 survey report recommended that all nonprofits have a cash reserve that covered several months of expenses. It also discouraged government from maintaining regulations that prohibit surplus cash. There has been a slight increase in the number of nonprofits with cash reserves, from 63 percent to 64.8 percent. But, more importantly, Table 6 shows that the percentage of organizations with four months of operating revenue increased by 12 percent.

Figure 5 Frequency of Deficits



8. Miller, C. The Looking-Glass World of Nonprofit Money: Managing in For Profits' Shadow Universe. Nonprofit Reality Shows: Live and Unrehearsed. The Nonprofit Quarterly. Vol. 12. Issue 1. Spring 2005.

Table 6
Size of Cash Reserve Fund, 1997 & 2004

	1997	2004
One month or less	33.8%	19.8%
Two to three months	38.2	40.1
Four or more months	28.0	40.1

More nonprofits reported having an endowment in 2004 than 1997.

- There was an increase from 24.9 percent to 30.4 percent, a 5.5 percent increase, in the number of survey respondents with endowments.
- The median adjusted value increased by almost $100,000 to $750,000 in FY2003.

Once again, there are important variations among the different subcategories. First, nonprofits in Other Metro Areas were more likely to have an endowment (41 percent). And yet this is the group that was most likely to have reported feeling vulnerable, suggesting that vulnerability might have more to do with short-term operational issues than assets. The bar chart below (Table 7) shows that for this survey sample there has been an increase in endowments across all types of nonprofits except Health Care. The double-digit increases among survey respondents in the Arts as well as Public & Societal Benefit are particularly notable. When the data are sorted by size, there were increases in endowments among the three groups of nonprofits with under $1 million in revenue.

Borrowing Practices

Because of late government payments, nonprofits need access to lines of credit. They also need to grow or maintain capital funds for facility projects. As part of the survey of financial practices, nonprofits were asked whether they had borrowed in the last 12 months and for what reason. Seventy-eight agencies, or 31 percent of the sample, reported that they had borrowed within the last 12 months. This represents a decline from the 1997 survey when 176 agencies or 39 percent reported borrowing in the last 12 months.

Table 8 reports the reasons the 78 organizations borrowed.

- More than twice as many respondents that borrowed, 57.1 percent, borrowed to stabilize cash flow as did for equipment and building purchases, 18.2 percent.
- An additional 9.1 percent reported borrowing for construction or renovation.

The sources for these loans reflect the need for lines of credit to address short-term cash flow problems. Table 9 shows that when nonprofits needed to borrow they were most likely to do so from banks or commercial lenders.

Borrowing patterns varied somewhat by geography and size.

Table 7 **Respondents that Have an Endowment by Type of Service, 1997 & 2004**

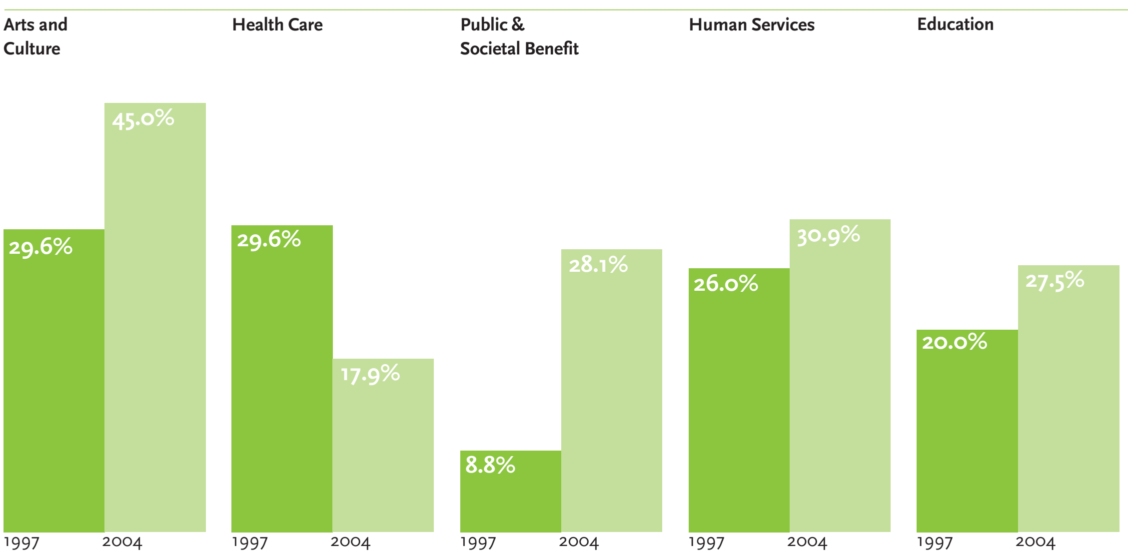


Table 8 Reasons Why Nonprofits Borrow

Primary reason for loan	
To stabilize cash flow	57.1%
For an equipment or building purchase	18.2
For facility construction and/or renovation	9.1
To take advantage of an opportunity to start a new program	1.3
For an emergency	1.3
Other	13.0

Table 9 Number of Nonprofits that Borrowed from Different Loan Sources

Note: Nonprofits may have borrowed from more than one source.

Source of Loan	
Bank or commercial lending organization	62
Friend, board or staff member	7
Foundation or foundation-sponsored loan program	5
Government agency	2
Affiliated organization (national or umbrella)	2
Endowment	5
Other source of loan	7

Thirty-nine percent of organizations in Chicago and Small City and Rural Areas reported borrowing money, whereas only 24 percent were in Suburban Chicago. Only Human Services agencies and the largest nonprofits with over $1 million in annual revenue were more likely to have borrowed.

For example, 54.7 percent of organizations with over $5 million in revenue had borrowed within the last 12 months. Respondents also reported that taking out a loan is an important strategy as organizations try to meet their facilities needs.

Financial trends as discussed above coupled with funding practices sometimes inhibit nonprofits from achieving and maintaining financial health. They show that each year many nonprofits face complex financial issues, including fluctuations and shortages of income and deficits. In fact, long-term strategies to build assets or expand programs can be quickly compromised by decreases in foundation and government support or unmet fundraising goals. At the same time, more nonprofits are actively managing their financial health by addressing cash flow issues and establishing endowments.

The ongoing and routine review of financial data will enable nonprofits to make mid-year adjustments to prevent deficits. On an annual basis the budget process should address those areas in which shortfalls have occurred in the past. For nonprofits, the ongoing challenge of balancing their budgets and accumulating assets highlights a key finding from the 1997 report: the need for unrestricted revenue, including greater flexibility in government grants and general operating support from foundations. Nonprofits themselves must continue to explore new sources of income.

Revenue Sources and Fundraising

The nonprofit audited financial data discussed previously cannot capture completely the different funding streams that Illinois nonprofits rely on to maintain their programs without interruption—a criteria of financial health.

Revenue Sources: Past, Present, and Future

The survey asked respondents to report the percentage of income attributable to different funding sources. The averages reported in Table 10 below do not reflect real dollars. Unlike the previous financial data, these figures are not affected by the inclusion of large nonprofits and therefore, the mean is presented. The majority of funding for Illinois nonprofits surveyed continues to come from two sources, government grants and contracts and earned income, but the percentage of revenue attributable to these sources has declined since the 1997 survey.

These figures differ from the findings reported by the Donors Forum of Chicago in its *Illinois Nonprofits: A Profile of Charities and Advocacy Organizations* because the Donors Forum of Chicago surveyed a broader group of nonprofits, including religious and advocacy organizations. This increased the portion of support from donations and earned income. Table 10 also shows that the percent of revenue from foundation and corporate support declined some over the last eight years, not the real dollars. Nonprofits predict that there will be small increases in all funding sources except government.

On the 1997 survey, nonprofits reported that they expected government funding to decline and needed to diversify their funding. The survey results show that by FY2001 nonprofits had changed their income mix slightly. Sixty-seven nonprofits reported that they had attempted to diversify their funding during the past five years and 126 reported that it was an ongoing policy of the organization. Not surprisingly, efforts at diversification have produced mixed results.

As the economic recession hit, nonprofits were actively pursuing individuals not only directly, but also through fundraising and social ventures. They also sought foundation and corporate grants. As the data show, by FY2003 these sources had not grown substantially or had fallen with the exception of fundraisers and events. The survey respondents acknowledged the limitations of these strategies when they reported that reductions in individual contributions and unmet fundraising goals were among the greatest problems they faced during the survey years. It is also interesting that the greatest increase from 1997 to 2003 occurred in “Other” sources.

Further evidence of the diversification is seen in the responses of nonprofits outside of Chicago. In 1997, they depended on government funding for 47.1 percent of their income.

That number decreased to 37 percent in FY2003, and they anticipate an additional decrease by 2007 that would make government funding only 29.4 percent of their revenue. Furthermore, nonprofits in Chicago and the Small City and Rural Areas saw a decline in individual contributions from 1997 to 2003. However, like their peers they predict future increases by 2007.

Nonprofits that provide government mandated health care and human services depend largely on government funding. In the 2004 sample, a higher percentage of these providers were located in Other Metro and Small City or Rural Areas. Therefore, more of their funding, 39.1 percent, is attributable to government than Chicago and its suburbs.

Another example is the Health Care subcategory that attributed 51 percent of funds to government contracts in 1997, but eight years later reported only 35 percent from that source. Human Services nonprofits reported that half of their funds came from government grants in FY2003.

To account for the further decline in government support, health care providers now report a greater reliance on earned income from patient payments.

As noted earlier, Health Care and Human Services providers that responded to the survey are larger and this is reflected in the results for nonprofits with more than $1 million in annual revenues. They too attribute half of their income to government contracts.

On average, all nonprofits with less than $1 million in revenue experienced declines in their government funding over the last eight years.

Nonprofit Fundraising Capacity

Illinois nonprofits demonstrate a clear understanding of the challenges to raising funds in the current environment.

1. Nonprofits anticipate further declines in government support over the next four years.

2. There has been a 10.7 percent increase in the number of nonprofits reporting that they have an in-house development director or fundraiser on staff since 1997 from 36.1 percent to 46.8 percent.

3. In addition, two-thirds of Illinois nonprofits report an increase in fundraising capacity (this may include the hiring of a development director) and 14 percent report that it was significant.

In other words, nonprofits are focused on building the resources they need to maintain their programs and grow.

Table 10 Average Percent of Nonprofit Income by Funding Source

	Actual 1997	Actual 2003	Projected 2007
Government grants/contracts	38.0 %	34.3 %	31.9 %
Earned income	23.9	20.9	21.2
Individual donations/memberships	13.7	14.0	14.5
Foundation/corporate grants	11.9	10.2	11.3
Fundraisers/events	6.7	9.5	10.1
United Way/federated funds	3.7	1.8	1.9
Other	2.1	9.5	9.0
Total	100 %	100 %	100 %

Table 11 Board Fundraising and Financial Management Practices

	Right Board	Not Right Board
More than 50% of board is actively involved in fundraising	81.8%	18.2%
All board members personally give to the organization	77.3	22.7
Board takes responsibility for fiscal stability of organization	78.3	21.7

Fundraising capacity is correlated with perceptions of financial health. Sixty percent of nonprofits that reported they were financially healthy had an in-house development director, whereas the figure was only 40 percent for the agencies that reported feeling healthy, but vulnerable. However, not all nonprofits were able to increase their fundraising capacity. Eleven percent of respondents reported some to a significant decline in fundraising capacity.

Information technology also facilitates fundraising capacity. The survey asked nonprofits what types of technology they currently used, including a database of constituents that can be used to solicit funds from individuals. One hundred ninety-four nonprofits reported that they have a database of constituents. This was the most common type of specialized software used by nonprofits.

Board Involvement in Fundraising

As the availability of government funds has decreased and the number of nonprofits competing for public and private funds has increased, a board of directors that takes an active role in fundraising has become crucial. Involvement in fundraising activities and personal support of the organization are among the many ways that members of the board can contribute to financial stability and ultimately financial health. This vital role is highlighted when we look at the reported levels of fundraising participation for respondents who believe they have the right board compared to those who do not.

Survey results have shown that nonprofit funding is slowly diversifying and nonprofits are dedicating more resources to fundraising. Even as the difficulty of achieving funding goals requires a more complex management approach, nonprofits' commitment to service is unwavering and the majority of agencies predict that they will expand their services in the future. (See Table 11)
For example, when the Raven Theatre learned that they would lose their storefront space in November 1999, the executive director and board seized the opportunity to purchase and renovate a new space that allowed for growth.

Leadership

While staff leadership is not acknowledged separately among the financial health criteria, it is clear that financially healthy and successful nonprofits rely on effective staff and board leadership. Whether the founder or the chosen leaders, a nonprofit's management and board must be able to provide not only a vision for the future, but daily direction in achieving the organization's mission, the nonprofit bottom line.

Since the first financial health study was conducted in 1997, staff executives have been managing in the face of increased economic uncertainty, public scrutiny, and competition. While it can be argued that these environmental factors have always existed, the confluence of these pressures has placed sizeable demands on staff leaders.

Tenure and Retirement of the Executive Director

On the 2004 survey, organizations reported that the median number of years in which executive directors had been in that position was six. This is comparable to the 1997 survey when the reported median was seven years. This longevity was seen as a critical asset for nonprofits as they prepared for the 21st century. An experienced executive director supported by the board, a development director, and an in-house bookkeeper had the human resources to build capacity and achieve financial health. However, it bears repeating that the 1997 survey found that nonprofits with development directors were not less likely to experience cash flow problems or deficits.

- In FY2001, most nonprofits faced the economic recession with experienced leaders at the helm.
- Moreover, many of these leaders emerged from the recession confident that their agencies would meet their missions or expand in the future.

The median tenure for Other Metro Areas differed, possibly because responding organizations were older. They reported median tenure of 10 years for their executive directors.

For the first time, the 2004 survey also asked respondents whether the executive director planned to retire within five years. The issue of succession was already of concern among leaders in the nonprofit sector when the new century began. A 2001 survey noted that nonprofits were ill prepared for the retirement of baby boom executives and foundation funds were not available for succession planning.[9] Almost 27 percent of nonprofits responded that the executive director would retire within five years. In other words, a quarter of Illinois nonprofits will experience a transition of leadership in the near future. Not surprisingly, the percentage of executive directors that would retire was greatest among Arts and Culture organizations as well as the older Human Services organizations. Almost a third of each group reported that the executive director would retire within the next five years.

Who is Responsible for Financial Success?

Both the 1997 and 2004 surveys measure the degree to which the leaders of Illinois nonprofits bear financial responsibility for their organization's financial success. Once again, these data support the 1997 argument that a strong executive director is essential to the financial health of a nonprofit. The chart below indicates that for almost 63 percent of respondents the executive director is viewed as the primary party responsible for financial success. This individual must acquire the personnel—a chief financial officer or bookkeeper—as well as the technology that enables him/her to assess the organization's financial position regularly to inform its board of directors and maintain effective decision-making.

Table 12
Who is Responsible for Nonprofit Financial Success

Executive Director	62.8%
Board of Directors	24.8
Program Managers	2.9
Financial Manager/Accountant	1.7
Development Director	0.0
Other	7.9

Management of Finances

As the staff leader most responsible for financial success, executive directors direct the overall financial management of the organization. The analysis of the financial data reported earlier highlighted how executive directors responded when income decreased from FY2001 to FY2002. A number of 2004 survey questions focused on important financial factors and practices, including responding to cash flow problems.

Certainty of Income

As executive directors prepare their budgets each year, they make assumptions regarding the stability of the revenue that will be collected in the next year.

- In FY2003, Illinois nonprofits reported that 38.3 percent of revenue was confirmed, 44.7 percent was expected and 17.1 percent was unsure.
- There were only small changes in the certainty of nonprofit income since 1997 with a percent or two more falling into the "Expected" and "Unexpected" categories.

Executive directors must be prepared to make budget cuts in order to reduce expenses when income they believed was expected becomes unsure or unlikely.

9. Light, Paul C. Pathways to Nonprofit Excellence. Brookings Institution. Washington, D.C. 2002

Two recommended practices from the 1997 report facilitate a quick response to fluctuations in income: establish cash management policies, and develop contingency plans for expense reduction. Executive directors may have relied on these practices from FY2002 to FY2003 when expenses were reduced by 4.1 percent.

The certainty of income also varied depending on geography, type and size. All nonprofits located in the three different groups outside of Chicago reported a decrease in confirmed income since 1997. A greater percentage, 25 percent, of Arts, Culture or Humanities budgets are unsure at the beginning of the year. This contrasts, not unexpectedly, with human services providers that are largely funded by government to provide mandated services: they reported that 44.4 percent was confirmed. Nonprofits with over $5 million in annual revenue reported that 53 percent of their income is certain, a seven percent increase from 1997. The smallest nonprofits with less than $250,000 in annual revenue, of which arts organizations comprise a large share, reported that 25.2 percent of income was unsure.

Response to Cash Flow Shortages
A timely and quick response to cash flow problems on the part of management is critical. As noted earlier, nonprofits attribute these problems to delays in government payments and normal business cycles. When faced with cash flow problems, the most common responses among 2004 survey respondents were to cut non-essential expenses, delay payment of bills, use cash reserve, and increase fundraising activities.

The lag that occurred in the response of nonprofits to the worsening economy emphasizes that executive directors together with the finance committee of the board of directors must respond as quickly as possible to decrease the chance that the organization will operate with a deficit.

Response to Deficits
In some cases, despite sound financial practices, budget deficits occur and executive directors must address them. Given the uncertainty of a large portion of nonprofit income, it is likely that an executive director will face at least one deficit at some time during his or her tenure. The previous section on income trends noted that some deficits are also due to changes in the accounting for temporarily restricted funds. However, most deficits occur when expenses exceed income. When deficits occurred, respondents used the prior year's reserve, cut expenses and laid off staff, and increased fundraising.

The 1997 IFF and Donors Forum of Chicago report emphasized the importance of building a cash reserve, preferably one that can cover several months of operating expenses. As illustrated by the response to deficits, cash reserves are an essential strategy for nonprofits to manage deficits in the short term when budget adjustments cannot cover income shortfalls.

Capacity-Building Activities
Capacity-building includes a broad range of activities undertaken by executive directors, staff and boards to achieve the organization's mission through organizational and resource development, including human resources, strategic planning, and improving operations. While all organizations need to focus on capacity-building

as a tool to achieve organizational effectiveness, an organization's capacity-building needs will vary depending on whether it is a start-up or a mature organization. The 1997 survey report contained a range of recommendations for executive directors from specific financial practices to broad fundraising strategies. Some of the practices, such as revenue diversification and the hiring of development staff have already been discussed in this report. In addition, respondents have adopted practices, such as maintaining benchmarks established by the board to assess the organization's financial health (44 nonprofits) and recruiting board members with strong financial backgrounds (44 nonprofits). Table 13 provides data on increases in areas recommended for investment that were tracked in 2004.

While there have been increases in capacity, nonprofits reported that these infrastructure needs are ongoing.

- Less than half, 43.6 percent, of executive directors reported that they had access to sufficient capacity-building assistance.
- Moreover, less than one-fifth, 18.5 percent, of nonprofits surveyed thought there was adequate foundation funding for these activities.
- Finally, nonprofits are three times as likely to rely on internal resources than on outside consultants and nonprofit resource centers, and twice as likely to rely on board members.

Another important difference between 1997 and 2003 is the expectation that nonprofits are accountable for their effectiveness

Table 13 **Nonprofit Capacity-Building Activities that Increased During the Past Three Years**

	Some Increase	Significant Increase	Total
Information technology	48.4 %	19.3%	67.7 %
Fundraising	45.5	14.2	59.7
Overall financial management	40.8	18.0	58.8
Program evaluation	43.4	12.7	56.1
Strategic planning	36.2	19.3	55.5

to both funders and the public. Therefore, it is not surprising that new resources are being invested in program evaluations that can measure the impact of a program, not simply the volume of services.

Nonprofits in the Other Metro and Small City and Rural Areas reported extremely limited access to outside assistance with the exception of auditors and accountants. Only six respondents reported using outside consultants, and only five used nonprofit resource centers.

Strategic Planning

Strategic planning is essential to overall capacity-building because it is the means by which the staff and board translate their vision into action steps. Typically this is done in collaboration with the board of directors. Strategic planning identifies the resources an organization needs, thereby integrating program and financial planning—a criterion of financial health.

One hundred seventy-nine respondents reported that they maintain a strategic plan for a three- to five-year time period as an ongoing policy and/or had implemented it within the last five years. At the same time, like fundraising, strategic planning experienced one of the larger reported declines in capacity, 11 percent. As Table 13 above shows, only slightly more than half of respondents indicated that they had increased capacity for strategic planning.

Leaders today are responding to important changes in the business environment. However, as a quarter of the nonprofit sector will experience changes in executive directors, nonprofits need to focus on institutionalizing the systems that maintain the organization's financial health as well as the monitoring of these practices.

Nonprofits that reported they were financially healthy were more likely to have a board of directors that maintained financial benchmarks. Leaders in the nonprofit sector have been developing their organizational capacity, but they need additional resources in order to be able to use organizational capacity to increase effectiveness.

Operations

The previous sections of this report have described how nonprofits handled changes in government support and the financial impact of the economic recession that began in FY2001. It is clear that the decisions that were made when cash flow problems and deficits occurred—decisions to cut non-essential expenses, increase fundraising, even use cash reserves—also affected operations.

This report has also documented increases in capacity since 1997 that have improved nonprofit operations. This section examines the key factors that influence day-to-day operations and, in turn, the financial health of nonprofits. Decisions regarding facilities, staffing and the use of information technology affect the services a nonprofit provides as well as the ability to function efficiently. Efficient operations facilitate program continuity and the ability to meet financial commitments. Additionally, operating stability as a measure of capacity can help determine a nonprofit's potential for growth.

Facilities

The key finding from the 1997 survey that nonprofits faced facilities pressure acknowledged that facilities are central to most nonprofit missions. Facility-related issues involve critical decisions about resource allocation. These include, for example, whether a nonprofit owns, leases, or has space donated, how its facilities will be maintained, and whether its program can be expanded in the existing space. The 1997 report focused on the importance of distinguishing between capital and operating funds. In 2004, almost two-thirds of respondents, 63.6 percent, reported doing so, a seven percent increase from the previous survey. Trends in space acquisition, facilities management, and financing provide insight into current capital needs.

Ownership

There was a trend toward ownership among Illinois nonprofits from 1997 to 2003, according to the survey results. In the 2004 survey, 50.5 percent of respondents reported owning their space. That is an increase of 10 percentage points over 1997 when 40.6 percent reported owning facilities.

Table 14 shows that some nonprofits continued to rely on leases and donated space. Slightly fewer organizations reported having leased space in 2004 compared to 1997 (37.2 percent versus 39.9 percent). While ownership of space increases fixed costs, it also enables a nonprofit to build its assets, which improves its future financial options.

Condition of Facilities

Despite the recent economic downturn, Figure 6 indicates that Illinois nonprofit facilities showed signs of improvement as rated by the nonprofit itself. From 1997 to 2004, there was an increase of 7.2 percentage points in the respondents reporting that their facilities are in excellent condition. As noted earlier, nonprofits may have benefited from the economic expansion that occurred between 1998 and 2001 and the resulting government programs like Illinois FIRST, which directed resources towards infrastructure.

With regards to facilities, there was little variation by geography and size. Public & Societal Benefit nonprofits in the survey sample reported the greatest improvement in the condition of their facilities since 1997, increasing from 20.9 percent of respondents reporting excellent facilities to 46.7 percent. There was also a substantial increase in the reporting of excellent facility conditions among Arts, Culture and Humanities organizations surveyed—21.6 percent in 1997 compared to 32.5 percent in 2004.

Maintenance and Major Facilities Projects

Maintaining a facility requires a great deal of financial as well as program planning. Nonprofits not only decide on when and to what extent facilities projects will be implemented, but they must also plan for the costs associated with both routine maintenance and major construction.

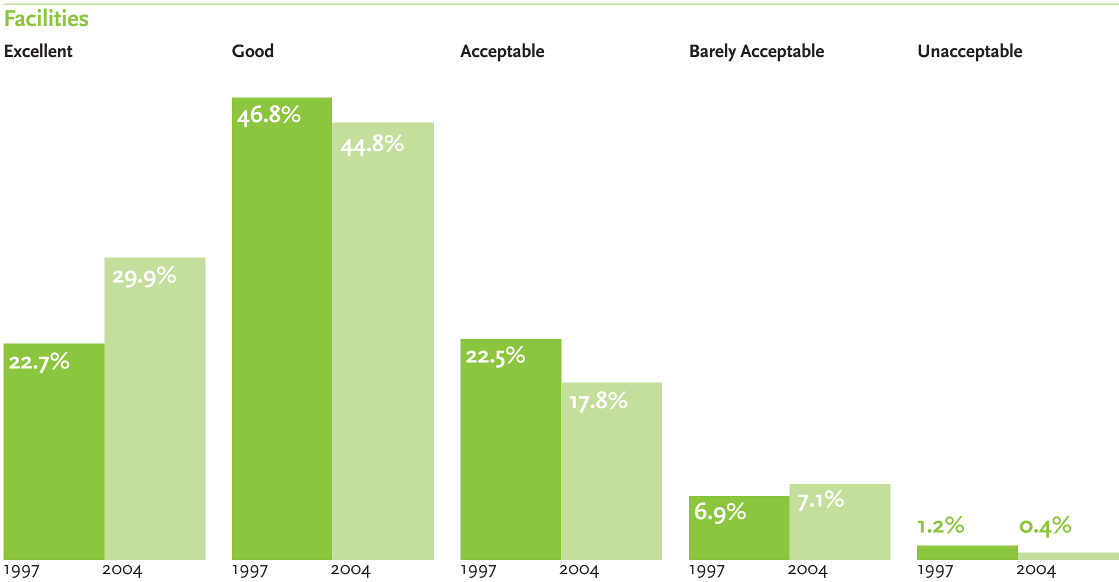
In order to better manage their facilities, it was recommended in 1997 that nonprofits establish facilities reserves. It is apparent that nonprofits have been planning more deliberately in this area. From 1997 to 2003 there was an increase in the percentage of organizations maintaining a facilities reserve from 27.1 percent to 32.9 percent, respectively. Moreover, when the subcategory data were examined, these increases in reserves occurred across most subcategories by geography, type and size with the following exceptions: Health Care agencies, organizations in Suburban Chicago, and organizations with $1 million to $4.9 million in annual revenue. In 1997, fewer than 10 percent of Public & Societal Benefit nonprofits reported having a reserve; in 2003, 25 percent had a reserve. Similarly, Education respondents went from 12.8 percent to 28.2 percent.

In 1997, the IFF and Donors Forum of Chicago also recommended that nonprofits establish a facilities master plan. The 2004 survey asked whether nonprofits had implemented or were planning to implement a facilities master plan that evaluates current space needs and plans for growth and organizational change. The status of nonprofit facility master plans in 2003 is presented in Figure 7. This increase in facilities information is further evidence of improvements in organizational capacity.

Table 14 Illinois Nonprofit Facility Arrangements

Arrangement	
Own all facilities	33.5 %
Own and lease facilities	13.3
Lease only	37.2
Donated space	12.4
Owned, leased and donated	3.7
Total	100.0 %

Figure 6 Nonprofit Facility Conditions, 1997 & 2004, Total Universe



Nonprofits were surveyed about their facilities and many of them anticipated various projects in the coming year. Over half (52 percent) of all respondents planned to undertake maintenance or building improvement projects within the next 12 months. The most frequent types of maintenance projects planned were:

1. Cosmetic improvements (91 organizations);

2. Repairs and replacements (71 organizations);

3. Improvements to building operations (62 organizations).

In order to pay for these projects, 46 nonprofits, almost half of the respondents with maintenance projects, intended to use their operating budget as a primary method of payment.

This response reflects the fact that while there has been an increase in facilities reserves, only one-third of nonprofits have them.

With regards to major facilities projects, 22 percent of organizations surveyed are planning to acquire property, undergo new construction or take on a major renovation in the next year.

Nonprofits identified different primary methods for paying for the new construction/renovations:

1. 29.4 percent plan on borrowing or using a line of credit;

2. 21.6 percent plan special fundraising;

3. 27.5 percent plan on identifying other sources of funding; the most frequently mentioned was government grants.

As supported by the findings above, the need for capital support is as great today as it was in 1997.

Given that major construction projects are one of the primary reasons nonprofits borrow money or use a line of credit, there are important opportunities to leverage the capital resources that are available to Illinois nonprofits.

Staff

Human resources are vital to the financial health of Illinois' nonprofit sector. The number of staff members, volunteers, and volunteer hours directly affects how a nonprofit achieves its mission. In fact, staff and benefits accounted for 55 percent of the FY2003 operating budget of nonprofits. In addition, as organizations grow or expand, the presence of specialized staff to contribute to financial management, fundraising, and the implementation and maintenance of technology influence the extent to which program staff and executive directors can concentrate on their organization's mission.

Paid Staff

Nonprofits use both full-time and part-time staff to accomplish their missions. In order to measure overall capacity, full- and part-time staff are combined into full-time equivalents (FTEs).

- In the current survey, respondents reported a median number of 15 FTEs in FY2003. This represents an increase over the 1997 median response of 10.

- Nonprofits reported having a median of five part-time staff in 2003.

As noted earlier, the human services sample included larger organizations; therefore, they represented the service type with the largest increase in the median number of FTEs since 1997, increasing from 15 to 32 FTEs. As expected, the number of FTEs increases with the size of the organization. Nonprofits with less than $250,000 in annual revenue, have the fewest FTEs, a median of two, whereas organizations with more than $5,000,000 in annual revenue, have the greatest number of FTEs, a median of 171. Since 1997, midsize organizations saw the greatest decrease in FTEs; nonprofits with $1,000,000 to $4,999,999 in annual revenue, went from an average of 43 FTEs in 1997 to 27 in 2004.

In conjunction with increasing the number of FTEs in general, many nonprofits also added specialized staff to their organizations, such as in-house bookkeepers, development directors and technology staff. The increases in specialized staff are explored in more detail below.

Volunteers

In addition to paid staff, many nonprofits engage volunteers to supplement both administrative and program personnel. Nonprofits may rely on volunteers because of their size and budget or because volunteers are central to the way in which the organization achieves its mission, such as volunteer guides at museums and zoos. New to the 2004 survey was information gathered about the number of volunteers and the number of volunteer hours used by nonprofits in a given month.

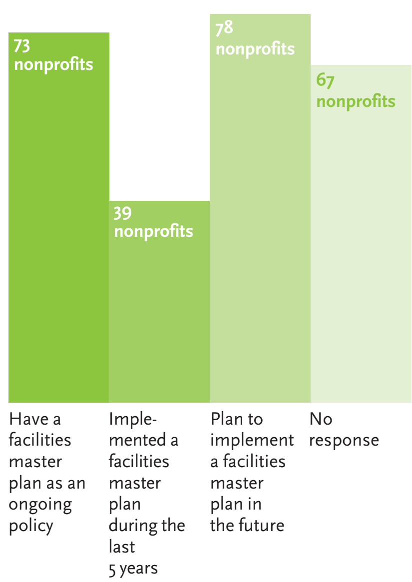
- The median number of volunteers reported by nonprofit respondents was 15 per month.

- The average number of volunteer hours contributed was 80 per month.

As noted above, the variation in use of volunteers by nonprofits was expected given the ways in which different organizations develop. Among the survey sample, large organizations, human service organizations, and nonprofits in Chicago had the highest average number of volunteers and volunteer hours in comparison to other categories. However, certain other groups of nonprofits appeared to make use of substantial numbers of volunteer hours with fewer actual volunteers on average.

Organizations serving Chicago reported the same median number of volunteer hours per month (100 hours) as did organizations serving Other Metro Areas. There was, however, a difference of 10 in the median number of volunteers. Chicago reported using a median of 20 volunteers and Other Metro Areas reported a median of 10 volunteers per month. The Human Services subcategory engaged the most volunteers with a median of 21 volunteers, and had the highest median for volunteer hours among field of service subcategories at 125.

Figure 7 **Nonprofit Adoption of Facilities Master Plan Since 1997**



Arts and Culture engaged slightly fewer volunteers with a median of 18, but also had a much lower number of volunteer hours per month with a median of 75. Health Care had the smallest median at 10 volunteers for 45 hours per month.

Again, the number of volunteers engaged correlated with the size of the organization. For instance, the smallest organizations (with less than $250,000 in annual revenue) used a median of 10 volunteers for an average of 78 hours per month, while the largest organizations (with more than $5,000,000 in annual revenue) used a median of 43 volunteers for an average of 200 volunteer hours per month.

Financial and Technology Staff

In terms of specialized staff members that contribute to the capacity and financial health of nonprofits, the percent of organizations with an in-house bookkeeper as well as organizations with a dedicated development director increased from 1997 to 2004 in the total universe and in almost every subcategory.

- Respondents with an in-house bookkeeper increased from 52.2 percent to 68.7 percent during the last eight years.
- 46.8 percent of respondents reported that they had a development director on staff—a more than 10 percentage point increase over the 1997 response of 36.1 percent.

The 1997 report recommended that nonprofits hire these personnel and, in 2004, they were two of the characteristics of nonprofits that reported that they were financially healthy.

The need for and concept of a dedicated information technology staff person was still emerging at the time of the 1997 survey; by 2004, these personnel were fully integrated into many nonprofits.

- When asked whether they had a dedicated technology staff person, over 28 percent reported that they had one.
- Another 10.5 percent of nonprofits used an outside consultant.
- In addition, 10.5 percent of survey respondents used volunteers.

Two fields of service have been required by the government to bill electronically for services provided to eligible individuals: Human Services and Health Care.

Survey responses reflected the new reality of service delivery for mandated services. Health Care respondents, not surprisingly, were the service subgroup most likely to have a dedicated technology staff member, at 43.2 percent, as were organizations with more than $5 million in annual revenue at 73.6 percent.

Information Technology

Since 1997, information technology has become an important and indispensable asset for organizing and delivering services in both the for-profit and nonprofit sectors. Technology can help to streamline back office operations as well as aid in the direct provision of services. To reflect the growing importance and contributions of technology to the sector, the 2004 survey added a new section about information technology practices.

As shown in Figure 8, most nonprofits reported having adequate information technology.

- Slightly over 30 percent of Illinois nonprofits believe they had up-to-date technology practices.
- Another 35.9 percent believe they had sufficient technology.

- In contrast, over 25 percent of Illinois nonprofits are either not fully using technology (23.4 percent) or have technology that is out of date (four percent).

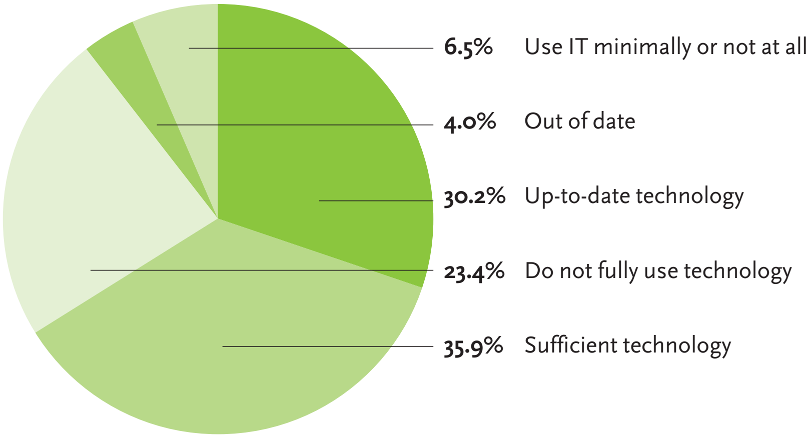
In terms of available equipment, 84.6 percent of respondents reported that all those who need a personal computer in their organization have one. While the majority of nonprofits had sufficient or up-to-date technology, it is clear that nonprofits need additional resources to take full advantage of the benefits that information technology can provide in terms of efficiency and effectiveness.

The three most widespread uses of technology in organizations, based on the frequency of responses, are personal computers, e-mail, and general productivity software (e.g., Microsoft® Office, WordPerfect). In addition to basic technology, many nonprofits are acquiring advanced business applications and customized software. The most common types were a database of constituents, reported by 194 nonprofits, and fund accounting software reported by 97 nonprofits.

Though these numbers show the prevalence of technology in the day-to-day operations, 10 percent of organizations said that information technology was not a high priority. In certain subcategories of survey respondents, that percentage is even higher. In organizations with less than $250,000 in annual revenue, 25.9 percent reported technology was not a high priority; for organizations with $250,000 to $499,999 in annual revenue, it was 22.6 percent.

These data provide further evidence of the diversity within the nonprofit sector and call attention to the fact that when capacity-building efforts are undertaken, they need to be tailored to the specific needs of the nonprofit.

Figure 8 **Current Status of Information Technology Used by Nonprofits**



As noted above, 39 percent of organizations have a dedicated technology staff person (a staff member or consultant).

- This means that almost two-thirds of nonprofits did not have a paid staff member dedicated to the organization's information technology needs.
- In addition, fully 13.9 percent of organizations cited the executive director as the person most responsible for information technology.

The person with primary responsibility for information technology in organizations varies by the size of organization. Organizations with revenues less than $250,000 in annual revenue primarily use their executive directors, 35.1 percent, and volunteers, 26.3 percent. For organizations that do not have a dedicated staff person, the non-technology staff member dealing with technology spends a median of 10 percent of their time on information technology. That number went as high as 20 percent among survey respondents in Education.

The items identified (by frequency of response) as the most helpful for organizations to use technology more effectively are:

1. Funds to acquire technology;
2. Additional staff training in utilizing technology;
3. Internal staff to address technology issues.

Certain decisions—about owning or leasing space; carrying out necessary maintenance or major projects; expanding, reducing or specializing staff; and implementing or upgrading technology—directly affect the efficiency of a nonprofit's operations.

Board of Directors

The board of directors plays a critical role in the financial management and overall success of nonprofits. Boards provide oversight on financial performance and management decisions, and they work with executives and staff to set goals and measure progress. There is a growing awareness of the positive and negative roles boards of directors play in maintaining the financial stability of an organization.

This was illustrated by the shift in response to the question in the 2004 survey:
Who is most responsible for the financial success of the organization? While the executive director is still cited most often, almost 25 percent of nonprofits viewed the board of directors as the person/group most responsible for the financial success of the organization—an increase over the 18.1 percent of respondents in 1997.

Respondents from the current survey also reported a high level of involvement from the board in key roles of governance.

Over 88 percent of respondents reported that their board is actively involved in setting policy. This percentage was particularly high for organizations in Small Cities and Rural Areas, 97.4 percent, and Other Metro areas, 92.3 percent. Nonprofits with less than $250,000 in annual revenue also reported a higher than average percentage of boards actively involved in setting policy, 93.3 percent.

Board involvement was measured in a number of key areas on the survey, and several responses illustrated that many boards of directors have undertaken activities and policies that support the organization and contribute to the financial health of nonprofits.

- While a small percentage of respondents reported that the Board of Directors was responsible for the nonprofit's financial success, almost 70 percent of respondents reported that their board takes responsibility for the organization's fiscal stability.
- As noted in the section on fundraising, over 63 percent of nonprofits reported that all board members personally give to the organization, an improvement over the 1997 response of 49.8 percent.

The percent of board members that personally give was even higher for certain subcategories of survey respondents. Seventy-five percent of organizations in Chicago reported that all their members give. For Arts and Culture organizations, 76.9 percent of organizations said that all board members give personally. Seventy-two percent of Public & Societal Benefit organizations had all board members donating. More than 72 percent of organizations with less than $250,000 in annual revenue reported that all board members personally give to the organization.

At the same time, 42 percent of organizations reported that more than 50 percent of their board members are actively involved in fundraising—a substantial increase over 1997 when only 10 percent was reported.

The survey also measured the nonprofit's perception of its board of directors. Once again, the diversity of the nonprofit sector results in different needs with regard to governance. On the 2004 survey, almost 67 percent of the respondents believed "they have the right board to carry their organizations through the challenges of the future."

An even higher percentage of organizations in Small Cities and Rural Areas reported having the right board (80 percent). Organizations in the Education field of service also reported a higher than average percent when asked whether they have the right board for the future (77.1 percent). Organizations with more than $5 million in annual revenue were more likely to believe they have the right board for getting through future challenges (81.1 percent).

The confidence that nonprofits expressed in their board of directors was a positive indicator for nonprofits because those that reported they had the right board for the future were more likely to have:

1. A board that is actively involved in policy setting;

2. A board that is actively involved in fundraising;

3. 100 percent of board members personally giving to the organization;

4. Boards that take responsibility for fiscal stability of the organization;

5. A finance committee;

6. Benchmarks, established by the board, to assess the organization's financial health as an ongoing policy;

7. A strategic plan covering at least a three- or five-year period as an ongoing policy;

8. A board that conducts periodic self-assessments of the organization's performance as an ongoing policy.

Many of these characteristics were recommended policies for nonprofits in the 1997 report. Figure 9 shows the full extent to which these characteristics correlate with organizations reporting they have the right board. Moreover, all of these characteristics contribute to a nonprofit's financial health.

The following findings also support the trends illustrated in Figure 9:

- 76.7 percent of respondents that maintain financial health benchmarks established by the board believe they have the right board; 23.3 percent of organizations that believe they do not have the right board maintain benchmarks as an ongoing policy.

- 71.2 percent of organizations that maintain a strategic plan covering at least a three- or five-year period believe they have the right board for the future; 28.2 percent of organizations that believe they do not have the right board for the future maintain strategic plans of this type as an ongoing policy.

- 84 percent of organizations that have the board conduct periodic self-assessments of the organization's performance as an ongoing policy believe they have the right board for the future. Only 16 percent of organizations that believe they do not have the right board have the board conduct periodic self-assessments.

In other words, if all nonprofits believed they had the right board for the future, an additional 23 percent of nonprofit boards would conduct self-assessments, an additional 18 percent would maintain financial benchmarks, and an additional 21 percent would be actively involved in fundraising.

The fact that organizations that reported "having the right board for the future" are also more likely to implement practices that contribute to the overall financial health of their organization further illustrates the critical role governance plays in the financial success of the nonprofits they serve.

Figure 9 **Comparative Responses Regarding the Practices of Nonprofits that Reported "They have the right board for the future" verses Nonprofits that "Did not have the right board for the future"**

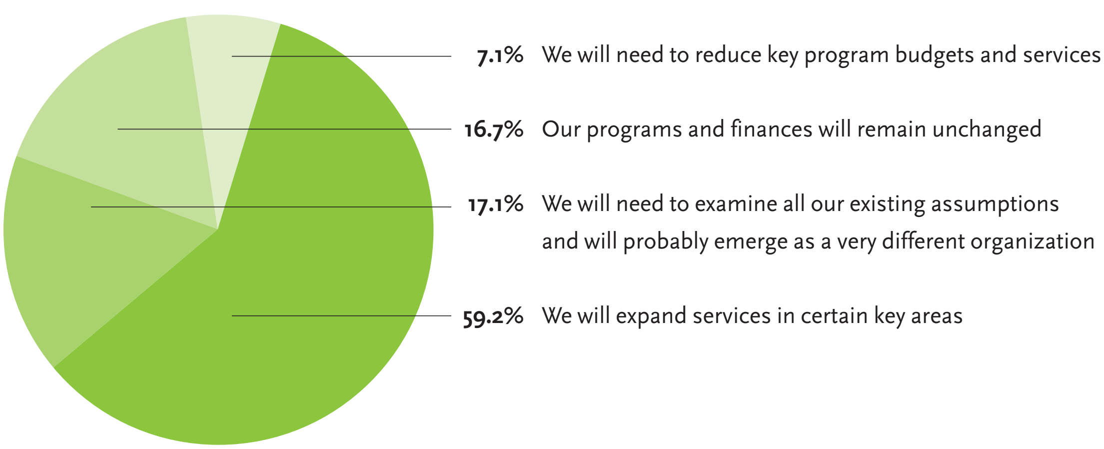
	Right Board	Not Right Board
Board is actively involved in policy setting	71.4 %	28.6 %
Board is **not** actively involved in policy setting	*32.1*	*67.9*
More than 50% of board is actively involved in fundraising	81.8	18.2
More than 50% of board is not actively involved in fundraising	*55.6*	*44.4*
All board members personally give to the organization	77.3	22.7
Not all board members personally give to the organization	*47.6*	*52.4*
Board takes responsibility for fiscal stability of organization	78.3	21.7
Board **does not** take responsibility for fiscal stability of organization	*39.1*	*60.9*
Organization has a finance committee	70.6	29.4
Organization **did not** respond they have a finance committee	*54.5*	*45.5*

Conclusion: Working Together to Get It Right

The results of this study demonstrate that nonprofits have taken important steps to increase their overall capacity for financial management, which contributes greatly to their ability to achieve financial health. At the conclusion of the survey, respondents were asked which statement about the future best described their organization.

Despite a prolonged recession and the obvious fundraising challenges it has posed, the majority of Illinois nonprofits planned to either grow or maintain their operations. Their responses demonstrate the sector's commitment to the people of Illinois. However, once again, they reported that a significant ongoing problem is the demand for services without the resources to support program growth. This is related to the two other significant problems they faced, the shortage of income to meet expenses and shrinking public funds to support programs. These findings reflected the experience of the sector during the economic recession.

Figure 10 Nonprofit Responses to the Question: "Which of these statements best describes your organization's future in the next three years?"



The percent of nonprofits that said they needed to examine all existing assumptions about their organization is consistent with the percent that experienced multi-year deficits and reported chronic financial problems. In comparing these results with the 1997 survey, there have been slight increases in nonprofits expanding and reducing their services. These variations were anticipated given the growth in the sector and changes in government priorities.

Although nonprofits have implemented the capacity building recommendations that the IFF and Donors Forum of Chicago made in 1997, these efforts need to continue. What, then, should nonprofits do to achieve their future organizational goals and what should funders and government do to support and enable these efforts?

Responding to *Getting It Right*

Action steps for nonprofit executives and board members

1. *Getting It Right* documents that those nonprofits that reported being financially healthy were more likely to maintain financial benchmarks as an ongoing policy. In order to maintain financial health, a nonprofit's fiscal policies as well as its financial plans must be reviewed continually.

The maintenance and monitoring of financial benchmarks are a shared responsibility of members of the board and the staff. This contributes critical information to the financial oversight of an organization's resource development, contract management and expense management. Moreover, no approved annual operating budget should reflect a future deficit.

2. Data is power. Independent from the necessity of meeting funders' requirements, collecting the right data will tell a story that leads to better financial and management decisions internally. Technology infrastructure supports the internal capacity of nonprofits to collect and use data; management must ensure appropriate levels of funding for the maintenance and acquisition of information technology.

3. Governance matters. Nonprofits with "the right board" have better financial practices and support for fundraising. There is no substitute for the oversight of a committed group of volunteers who care about the mission and choose to invest their time and talents in charitable activities. Nonprofits should conduct regular analyses of their boards and governance practices, such as a board self-assessment.

4. Advocacy is a responsibility. Each nonprofit must take leadership in this area by communicating the importance of its mission, the necessity of its services, and the need for legal and regulatory improvement to its operating environment. Society depends on the leadership of the voluntary sector as the base from which public policy evolves.

Action steps for private foundations and other funders

1. Financial health is built over time through careful investments in infrastructure, and nonprofits need support from funders in these efforts. General operating support translates into capacity-building for a range of ongoing infrastructure needs such as information technology, specialized staff including development directors, and board and staff development.

2. Recognizing the importance of governance in supporting the financial health of nonprofits, funders should target funding to improve nonprofit governance such as board training, board self-assessments, and high-quality strategic planning. This commitment will strengthen the sector overall.

3. In an environment of public scrutiny, funders and nonprofits share the responsibility of articulating need and demonstrating effectiveness of grant-funded programs. Private funders can take the lead in encouraging evaluation and outcome measurement by ensuring that resources are earmarked for it and by providing the funds to support best practices. Sharing lessons learned from the grantmaking process requires a culture of transparency and an investment of time.

Action steps for government to take when partnering with the nonprofit sector

1. According to the 2004 respondents, the primary cause of financial stress among those nonprofits that deliver services for government is persistent payment delays. Government must work to make more timely payments and to view nonprofits as they do any other contractual partner. If payments are timely, financial planning and strategy can become a tool of the future rather than a reaction to the demands of the day. More important, government and nonprofits could move to a new level in their financial relationship and focus on the effective delivery of services and financing that promotes long-term provider stability.

2. Nonprofits recognize the need for compliance and reporting on government contracts and grants. Many government agencies have well-established practices of working in partnership with nonprofits to create and improve reporting systems. Government should think of reporting as an important opportunity to work together with nonprofits to measure outcomes and achieve effectiveness.

3. Information technology is an integral component of doing business and reporting on business performance. It is an essential tool for the nonprofit financial manager and, as a result, government contracts should incorporate it into their plans for service delivery and either include it as a reasonable cost associated with service delivery or make available additional funds.

Neumann Association

Field of Interest
Human Services—
Developmental Disabilities
and Mental Illness

Mission
To integrate persons with
disabilities and other life
issues into the community and
enrich their quality of life with
choice and independence.

Founded
1949

2003 Annual Revenue
$9,192,219

2003 Net Assets
$520, 463

Engineering a Financial Turnaround: A Case Study of the Neumann Association

In the four years since Eileen Durkin accepted the job of chief executive officer of the Neumann Association, formerly known as the Victor C. Neumann Association, this agency with revenues between $8 million and $11 million annually has engineered a financial turnaround.

The Neumann Association's financial difficulties were brought on by the agency's over-expansion, including several real estate acquisitions, a costly move to a new facility, and the structure and terms of the bond financing used to accomplish these activities. These events were compounded by cash flow difficulties due to late payments from the State of Illinois. Further aggravating the agency's problems and hampering decision-making was the absence of a strong finance department.

When Durkin joined the agency, she immediately set priorities. Most pressing was the fact that property financed through a tax-exempt bond issue was not being used for intended programs, thereby limiting projected cash flow.

In addition, revenue from Neumann's existing programs was not adequate to cover the debt repayment and related costs, such as required contributions to a reserve fund. Financial penalties exacerbated the problem.

It was readily clear what Neumann had to do to turn its financial situation around: refinance the $5.9 million bond issue, sell another approximately $1 million worth of property that was only partially developed as a residential program for teenage mothers; establish a comprehensive budget process; and implement financial oversight measures. To accomplish these changes, Durkin needed to engage the board and staff by revealing the full extent of the problems, and rally support by involving the staff in solving them.

Phase I: Cutting Their Losses

In January 2002, the Neumann Association faced a significant financial crisis for the first time in its history: the agency was barely able to meet its payroll, even with a line of credit from the Uptown National Bank.

In March 2002, Helena Burke-Bevan from the Uptown National Bank introduced Durkin to Michael Boisvert from Griffin, Kubik, Stephens & Thompson Investment Bankers (GKST) to advise the Neumann Association on refinancing debt. Durkin hired GKST immediately to design and implement short- and long-term debt restructuring plans. Faced with continued strains on the agency's finances, Durkin set about building political support among elected officials and in Springfield at the Illinois Department of Human Services.

She focused on communicating the message that the Neumann Association remained an essential provider for a high-need disabled population that would have nowhere else to turn if the organization failed. Local politicians and Illinois Department of Human Services staff were asked to visit programs and see the Neumann Association in action. These efforts succeeded in bringing in much-needed funds on an emergency basis. Most of the funds recouped in the early stages went straight to the agency's creditors. GKST was able to free up almost $400,000 in bond issue-related reserves or other accounts between April and June. They also obtained deferrals of payments to the investors, including temporary relief of required Repair and Replacement Funds.

By April 2002, Neumann had begun the hard work of eliminating programs, cutting administrative expenses and freezing salaries. They reviewed the necessity of every purchase and curtailed many expenses. Non-essential staff was laid off, taking care to ensure that quality services could be maintained. It was determined that the therapeutic day school should be closed.

Durkin gave financial updates to the staff on a daily basis. Her leadership team worked to ensure that everyone was aware of what was being done to stabilize the agency. The staff leadership team remained intact during the crisis, demonstrating their dedication to the clients and their belief in the plans led by Durkin.

Even while making bold short-term administrative moves, they considered other options: should the Neumann Association file for bankruptcy? After several meetings between board members and attorneys, the board decided against this solution for Neumann.

Once bankruptcy was ruled out, how could the agency, which had been using accounting consultants, afford not to hire a top-rate chief financial officer going forward? It was decided that this investment would not only provide needed administrative support for the executive director, but would also demonstrate a commitment to rebuilding and to getting it right. In Fall 2002, Neumann hired Michael Grene as chief financial officer.

Phase II: Restructuring the Agency and Its Debt

During the Neumann Association's 2003 fiscal year, GKST began discussions with creditors on comprehensive refinancing. The Uptown National Bank extended its credit line beyond the approved $600,000 limit. There was also an added incentive to work on a range of solutions to the problem: the then-prospective merger between Uptown National Bank and Bridgeview Bank Group that could have brought new individuals into the relationship. GKST secured a second deferral on the bond issue reserve payments that December. In March 2003, $30,000 had to be drawn from the Repair and Replacement Fund for emergency maintenance on the buildings financed by the bond issue.

Michael Grene assumed the financial leadership of an organization that had shown a loss of $1.2 million in the prior fiscal year. The loss was largely attributable to the write-off

Eileen Durkin and Michael Grene in front of Neumann's offices.

of $1 million due to a failed building development and $200,000 in revenue for the cancellation of the associated program. In addition, the agency continued to experience cash flow problems due to the delayed payment of its government contracts.

Grene immediately began establishing the financial management practices that would be crucial to the agency's return to profitability. He had to create a basic system of financial accounting at the same time that he had to produce reports for the discussions regarding refinancing that were already underway. Under his direction, each of the agency's programs became a cost center, incurring their own direct and indirect expenses as well as revenue. Managers received profit and loss statements for their individual programs regularly. Software upgrades enabled the organization to improve its reporting capacity. A top priority for the CFO was the renegotiation of vendor contracts and leases covering everything from telephones to insurance. This step netted the Neumann Association $400,000 in operational savings that strengthened the organization's position in refinancing its bonds. At the same time, Durkin and her leadership team were trying to determine what should be done with two properties, Whipple and Haddon, financed under the 1997 bond issue. Both were in poor condition and would require costly renovations to become habitable. Moreover, the Neumann Association had been unable to realize any revenue from them. The team soon realized that selling the properties would both eliminate the renovation costs and generate much-needed cash for the agency. At the end of March, the Whipple property was sold for $640,000, and in August the Haddon property sold for $271,000. Unfortunately, 95 percent of the cash generated from the sales went directly to the bondholder and did not provide relief from the organization's ongoing cash flow problems.

Durkin recognized early on that she needed to attend to the morale and spirit of the program managers so that the Neumann Association could maintain its reputation as a provider and meet licensing requirements. She demonstrated from the moment she joined the agency that open communication was going to be a central management principle. She gave "State of Neumann" addresses monthly, acknowledging the challenges the agency faced. Building support among the staff was critical because they were responsible for maintaining continuity of services. Moreover, providing a consistent and stable management presence and a vision of the future went a long way in building confidence within a staff that had experienced a crisis.

During this time, labor unions had targeted many nonprofit agencies serving the developmentally disabled. This added another level of management complexity as Durkin restructured programs. Ultimately the union, which was elected in October 2002, proved to be an important partner in seeking additional payments from the State. Tina Conner and Colleen Rosa, two long-time staff members who were part of the leadership team, pointed out that even dissatisfied employees knew that all social service agencies were having trouble and therefore, new jobs would not be easy to find. Some employees remained fearful that the Neumann Association would experience further problems; others struggled to accept the fact that the agency needed to operate as a business.

Phase III: Moving Into the Black

GKST had begun negotiations with the investors over costly pre-payment terms, which were modified, saving over $750,000 in costs associated with refinancing. By April 2003, the effects of the agency-wide restructuring began to show and Grene was able to project a surplus based on accounts payable. Based on the projected surpluses, Grene and GKST decided to solicit refinancing of the Neumann Association debt soon after the end of FY2003 on June 30, 2003. From July through September 2003, Grene solicited and interviewed nine banks in the Chicago area. Ultimately, only three of those agreed to participate in a bidding process for refinancing the Neumann Association's debt if the agency reported a profit when its year-end books were closed.

The financials reported in the table below reflect Neumann's turnaround during FY2003 when the audit revealed an $811,000 surplus.

In less than a year, the Neumann Association had a $2 million turnaround. The four key strategies used to accomplish the turnaround were:

1. Cutting expenses/closing programs
2. Selling property
3. Writing off a sizeable loss in 2002
4. Hiring professionals to develop a sustainable long-term financial plan

The now-merged Bridgeview/ Uptown Bank was the most aggressive bidder and was selected to refinance the real estate originally financed in the tax-exempt bond issue. The new terms resulted in annual savings of $400,000 for Neumann. Moreover, in the process of refinancing, the Neumann Association once again became a highly desirable bank customer. The $600,000 line of credit that was insufficient during the crisis has been raised to $1,000,000.

Neumann's leadership team has continued to enhance and improve its operations, particularly in the fiscal area. Grene upgraded a lower-level accounting position to comptroller to support increased monitoring of Neumann's finances. When the agency realized that an outdated and inefficient reporting system was causing significant delays in filing claims with the State, the agency began searching for an automated billing system. However, Grene was dissatisfied with the quality of the products on the market so he hired a consultant to design a specialized billing system. The venture was so successful that the Neumann Association now has the opportunity to sell its system to other providers for the developmentally disabled and mentally ill. The agency has added 100 computers for its staff and continues to explore new ways to achieve system efficiencies.

Given its strong financial position, the Neumann Association is exploring new financial relationships within the community. There has also been an increase in the "financial literacy" among the entire staff. The leadership team is no longer the only group to understand the costs of an empty bed. Everyone agrees that the staff is proud to say that they work for the Neumann Association.

Conclusion: Where is Neumann Now?

Throughout the course of its financial difficulties and all the challenges associated with emerging from them, Neumann was able to maintain the quality of its services and continue fulfilling its mission. As Neumann looks to the future and plans for expansion, it continues to explore options for strengthening its financial stability.

Table 1 The Neumann Association Financials for Fiscal Years 2001-2003

	FY2001	FY2002	FY2003
Income	$12,080,787	$11,606,485	$9,276,868
Expense	11,730,033	11,917,636	8,157,277
Surplus/Deficit	161,133	(1,214,764)	811,131
Assets	9,922,220	8,179,779	8,865,362
Liabilities	9,004,124	8,476,447	8,344,899
Net Assets	$918,096	$(296,668)	$520,463

Today, the Neumann Association is a leader and an innovator in the field of disability services. Other national providers of disability services look to Neumann's development training program and career services as a model for service delivery. Neumann is developing a program to address the medical and social needs of developmentally disabled persons who develop Alzheimer's disease. This program will be among the first in Illinois and the nation.

The Leadership Team continues to seek new opportunities for Neumann. Colleen Rosa is now the director of special projects. She has developed Neumann's volunteer program and is exploring other opportunities for community outreach. Durkin serves on several statewide task forces concerning the developmentally disabled and consults regularly with the Illinois Department of Human Services. She currently serves as the chairperson for the Chicago Providers Leadership network, a group of community agencies working with businesses and city officials in order to maximize employment of individuals with disabilities. Most importantly, for the past three years the Neumann Association has been in the black.

Lessons Learned:

Understand the long-term implications of financing restrictions.

Build a relationship with a trusted bank partner.

Ensure that the board of directors knows the extent of the problem and exercises their fiduciary responsibility.

Identify trusted consultants with the right set of skills to address your organization's needs.

Communicate openly with staff.

Involve leadership in problem solving.

Invest in a high-quality finance staff.

Develop support from constituencies external to the organization.

Raven Theatre

Field of Interest
Arts, Culture, and Humanities

Mission
To provide an important voice in regional theater focusing on American classics as well as lesser-known projects that shed light on the "American Experience."

Founded
1983

2003 Annual Revenue
$272,755

2003 Net Assets
$1,587,179

Developing a Community Theatrical Arts Center: A Case Study of the Raven Theatre

In Spring 1999, Raven Theatre learned that the Chicago Board of Education had bought the city block surrounding the Theatre, including the space Raven had leased as its home for the past 15 years. Raven Theatre was a successful 70-seat storefront theater in the Rogers Park community on Chicago's north side.

It had established a strong regional audience base. The Raven Theatre provided outreach through its children's touring company, and it had been operating in the black for the previous four years, with annual revenues around $200,000. Having achieved this sustainable level of success, Raven Theatre was not anticipating any major changes in its operating structure. After the Board of Education's purchase, however, Raven Theatre faced an unforeseen and unavoidable relocation that had to be accomplished by November 2000. With this unanticipated move came many other opportunities.

Phase I: Building a Supportive Network

In response to the news that its building had been purchased, Raven Theatre board and management quickly developed two objectives: to keep the company intact and operating; and to purchase a new home in or near its existing neighborhood.

Beginning in Spring 1999, Raven Theatre told their story and communicated their goals to local political figures and community leaders. They also held fundraising benefits at the theater, and began to organize mail drives to solicit individual contributions. These efforts not only brought much-needed funds, but also new supporters and visibility—all of which would prove important in the months and years to come. For example, in November 1999 the Raven Theatre held a benefit performance at which the group made an appeal to the audience about their upcoming relocation. This appeal attracted audience member Mark Yates, a real estate lawyer, who joined the board and helped lead Raven Theatre through the challenging process of moving. Today, Yates remains on Raven Theatre's board and currently serves as the president.

Also in Fall 1999, the Raven Theatre found an advocate in Alderman Patrick O'Connor of the 40th ward, who dedicated time and energy to assist Raven Theatre and was particularly interested in moving this community-focused arts organization into his neighboring ward. The Alderman's support would prove critical to Raven Theatre as it tried to identify a new space and raise the public and private funds on a scale they never thought possible.

Phase II: Finding the Space and Funding the Move

As Raven Theatre explored relocation options, it also redoubled its efforts to raise the funds that would be necessary to acquire a new space and finance the move. As Raven Theatre and its advocates reviewed location options, a building in the 40th ward—in the Edgewater neighborhood—became available. An old grocery store that had closed in December 1999, this storefront space could house the Raven Theatre as well as allow for growth. The Raven Theatre and its advocates saw the potential in the facility and its location.

Originally, Raven Theatre had projected that the entire acquisition, move and build-out of the new space would cost $500,000 to $600,000. In researching this potential space, however, the Raven Theatre learned that the building was on the market for approximately $900,000, although it had been assessed at around $500,000. Given the building's desirable corner location and parking lot, there were many interested buyers, including large national drugstore chains. With this level of competition driving up the price, the Raven Theatre was looking at a $1.2 million undertaking instead of a $600,000 project. Even for a financially stable organization like Raven Theatre, putting together that amount of money over a short period of time required a great deal of collaboration and an aggressive, if impromptu, capital campaign.

With the support of Alderman O'Connor, Raven's Theatre board and executive director were able to obtain a majority of the necessary funds from the State's Illinois FIRST program—through which State Senators Lisa Madigan and Ira Silverstein were able to grant discretionary funds—and the City of Chicago, which approved a relatively novel use of Tax Increment Financing funds from the City's economic development initiative. Board members and the executive director also stepped up fundraising efforts with individuals and foundations. Throughout the entire process, Raven Theatre succeeded in gaining support from 14 foundations and several hundred individual contributors. And a neighborhood bank interested in supporting local business agreed to issue the Raven Theatre a revolving line of credit secured by a mortgage. The support of the Uptown National Bank of Chicago (since acquired by Bridgeview Bank) would prove important throughout the lengthy development and relocation process.

In particular, the bank increased Raven Theatre's line of credit when cost overages arose in bringing the building up to code. With these sources of financing, the Raven Theatre was able to move ahead with the larger $1.2 million project, purchase the building, and begin the renovation and development of the space. Challenges and setbacks arose throughout the construction process as architects and the contractor worked to meet code requirements. These setbacks led to costly overages. Due to the newly developed relationship with Uptown National Bank, Raven Theatre obtained an increase to its line of credit to cover the costs. The building purchase and renovation took from November 2000 to August 2002 and cost a total of $2.1 million—$900,000 more than originally projected. (See Table 1)

Phase III: Growth Opportunities

The new, larger space provided fresh opportunities for Raven Theatre to expand its theater programs as well as its opportunities for earned income. Raven Theatre transitioned from a 70-seat storefront space to a complex that houses a 160-seat East Stage theater, a 60-seat West Stage theater, a spacious lobby, program support space, and on-site parking. This additional space allows the Raven Theatre to run two shows at a time, which in turn increases opportunities for earned income. Raven Theatre is also able to rent out the lobby and at times the theaters themselves for special events and fundraisers, further increasing earned income opportunities that can support the operations and development of the organization.

Community Outreach

Raven Theatre also took the opportunity to expand its community outreach activities. Soon after identifying the Edgewater building, Raven Theatre and nearby Hayt Elementary School began a partnership to provide after-school theater arts education and free performances of the Children's Theatre Touring Program. This partnership began even before the Edgewater building was purchased, and Raven was able to maintain these programs throughout the development and build-out of the new space.

Building on the success of the Hayt Elementary School relationship, the Raven Theatre went on to form partnerships with an additional three area schools, the Chicago Park District, and local community centers to provide arts education programs and theater workshops for children. Raven Theatre also recently agreed to offer internships to high school students from Saint Gregory's, a local high school. They are also in discussion with Saint Gregory's to offer theater classes as part of the school's curriculum. These partnerships—in addition to the Theatre's reduced-rate workshop series, and reduced or free theater tickets for certain community organizations and special needs groups—have brought Raven Theatre's community involvement and outreach initiatives to their highest level yet.

Phase IV: Managing the Growth of Staff

The expanded theater program and community visibility have meant a significant growth in operations for Raven Theatre. In the last year, co-founder and executive director Michael Menendian has come on staff full-time. Raven Theatre also hopes to add to its administrative staff by first hiring a director of audience development, and later a director of development. With these additional staff members, the executive director will be able to more fully concentrate on artistic direction. He will no longer bear the primary responsibility for fundraising and marketing, but will be able to manage specialized staff who will concentrate on further developing each of these functions.

Table 1 Funding Sources for Relocation and Renovation

State Funds	**Amount**
Illinois FIRST (A former state program)	$730,000
City Funds	
Tax Increment Financing	$550,000
Bank Loans	
Uptown Bank (Now Bridgeview Bank)	Revolving credit that reached a maximum of $1.1 million*
Private Funds	
Foundation and individual contributions	$455,000
Total	**$2.1 million**

**Raven Theatre was able to use the TIF funds to pay down Uptown Bank's line of credit, which resulted in a modest $365,000 mortgage.*

Board of Directors

The board of directors has always played an active role in supporting the co-founder/executive director, and is now taking steps to institutionalize many of the practices that were developed to achieve success in Raven Theatre's move and subsequent growth. As part of this process, the board has recently formalized and published its policies and procedures. An important policy worth highlighting is that the board has adopted a 100 percent contribution policy for its members, meaning each member is expected to contribute or raise a minimum donation to the Theatre. This is an example of a policy that makes it easier for new and future board members to identify what is expected of them.

Financial and Management Practices

It is also important to note that all of the accomplishments and expansions Raven Theatre has achieved up to this point, though challenging and hard-won, have taken place without accruing large deficits or encountering severe cash flow difficulties. The Theatre benefited from its strong financial position as it began the relocation and expansion, but Raven continued to be mindful of its finances and made sound financial decisions throughout the process that allowed the Theatre to take advantage of the opportunity for growth. Formalizing the practices and procedures of the board and executive director, as well as expanding administrative capacity, are efforts to institutionalize the successful organizational and financial management practices that have allowed the Theatre to attain this new level of growth and expansion.

Conclusion: Lessons Learned

Importance of Networking

Michael Menendian attributes much of the success of Raven Theatre's transition to the network of supporters and advocates that he and the board were able to build throughout the process. From community leaders to elected officials, private funders to community-minded banks, the Theatre encountered numerous supporters who were able to contribute to the success of the organization's relocation and subsequent growth. This network included lawyers and architects, contractors and financial planners, and others who were instrumental in coordinating the move.

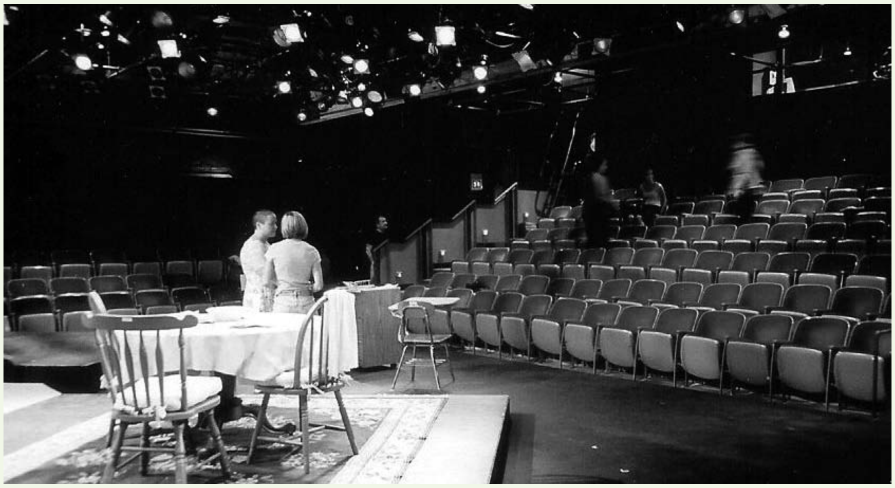
It is also clear that Menendian and board president Yates provided leadership that enabled the success of this project. Moreover, the support of an elected official such as Alderman O'Connor can never be underestimated.

Don't Be Afraid to Ask

Menendian and Yates emphasize that once an organization builds a network, it should not be afraid to ask for help or support where it is needed. In their experience, Menendian and Yates found that just by asking supporters with whom they came into contact, the Theatre was able to obtain resources it would otherwise not have been able to afford.

Just Get Started

In the early days of their relocation planning, Alderman O'Connor advised Raven Theatre to "just get started." Both Menendian and Yates say that a key to their success was not waiting for every piece of the puzzle to be in place before moving forward (like a formalized capital campaign), or, alternatively, not letting snags in the development stop their progress (like the difficulty of acquiring the sought-after grocery store space). Instead, they pursued their objective, kept the momentum going, and fought to keep Raven Theatre afloat and viable. And it seems, almost three years after opening the new space, that not only has Raven Theatre survived, it has reached a whole new level of potential.



Lessons Learned:

"Just get started."

Networking within the community and among supporters is invaluable.

Political support is a critical component of many community-based projects.

"Don't be afraid to ask."

The Boys & Girls Club of Decatur

Field of Interest
Human Services
Youth Development

Mission
To enhance the quality of life of youth of all backgrounds, with special concern for the disadvantaged; and to develop the necessary qualities for such youth to become responsible citizens and leaders. The goals are to: promote self assurance and leadership characteristics in each member, provide each member with a habit for success, provide each member with a desire to share, and provide each member with a respect for education and self improvement.

Founded
1972

2003 Annual Revenue
$527,128

2003 Net Assets
$1,432,083

The Challenge of Growing a Nonprofit in the Face of Deficits: A Case Study of the Boys & Girls Club of Decatur

The Boys & Girls Club of Decatur (the Club) is located in a metropolitan area in central Illinois. In 2004, the Club reported that the organization was "feeling financially healthy to date, but vulnerable in the future." Despite concerns about its future financial health, the Club predicted that it would both expand its services and begin a $2.5 million construction project.

This case study focuses on three financial challenges the Boys & Girls Club is now facing: meeting an increase in the demand for its services when annual income fails to cover program expenses; hiring better trained staff; and beginning a capital campaign. As is the case with most financial challenges, they are also management and capacity challenges.

Each year the Boys & Girls Club of Decatur sponsors programs for approximately 1,600 children ages 4-19. The Club has been a vital community resource for 33 years and for 26 of them Walt Smith has served as its Executive Director.

The Club is a second home for its participants, most of whom live at or below the poverty level. The Club provides its 1,200 members with a range of programs from basketball and arts and crafts to academic support and life skills training during nonschool hours. Twenty years ago the Club built its current 15,000 square foot facility that houses five activity rooms, a gymnasium, and a kitchen. Until last year, the facility was conveniently located adjacent to a public park that provided ample outdoor space for the Club's programs. Membership costs $1 per year, which means that the operating budget is raised from government and private sources each year.

Changes in the Environment

The Club, like many human service agencies, was located near public housing and provided services to its young residents. Decatur's 250 unit housing project was demolished in 2002 under the Federal government's Hope VI Program to eradicate severely distressed public housing and revitalize communities by promoting mixed–income developments. The demolition has not caused a widespread dislocation of the agency's population or a loss in membership. Its members now reside a few miles away from the Club rather than adjacent. However, as a result of Hope VI, the Decatur school district was given the park land near the Club to construct a new K-8 elementary school.

That school will open in the fall of 2005 with an enrollment of 500 children and has the capacity to serve 800.Not surprisingly, the Club anticipates new demand for its programs.

At the time of the elementary school's construction, Walt Smith was actively involved with the school district in negotiations over the use of the school's outdoor facilities. Simultaneously, the Club sought a deed for the property on which it operated in order to claim the remaining space for an expanded facility. It had long been planning to enlarge its facility and now it would have to do so on a smaller parcel of land. These changes have not created a crisis, but rather they have amplified the ongoing challenges of raising the funds to keep the program going, acquire the facilities and space necessary, and plan for expansion.

Financial Challenges

Each year when Walt Smith presents the Boys & Girls Club's Board of Directors with his proposed operating budget, which has increased over the past three years to approximately $600,000, they know that it is unlikely that the agency will raise that much. In fact, as the Table 1 below shows, annual income has typically averaged around $500,000. The Board also knows that Walt Smith's budgets reflect the minimal cost of meeting the Club's mission. Faced with the choice of cutting programs or operating with a deficit, Walt Smith and the Board have consistently chosen to operate with a deficit. The Club then relies on the interest earnings and some principal from the agency's endowment to fill the budget gap each year. The Club's endowment was established with a $500,000 bequest in 1991.

The single largest funding source for the Club is the United Way, which provided 40 percent of the Club's annual operating budget in fiscal 2003. The remainder of its income comes from diverse sources, including government grants, individual contributions, and earned income.

The Club is a highly respected organization that is valued by Decatur's community leaders for its leadership and its services. As is shown above, fiscal year 2002 was an exceptional year for the Club. A special banquet celebrating the agency's 30th anniversary resulted in several large contributions and net earnings of $550,000. This resulted in an atypical surplus of more than $419,000. The following year the Club posted a deficit as it had in FY2001. Like so many nonprofits, in the good years, Walt Smith has been able to put funds in a cash reserve and invest the money to generate supplemental income. However, in most years, the Club is faced with a budget shortfall. The Board of Directors as well as the United Way, the agency's primary funder, have been concerned about the Club's deficits over the years, but no long-term solutions have emerged to date.

Limits to Funding Diversification Faced by the Boys & Girls Club of Decatur

In Decatur, as in many cities, the United Way is responsible for the distribution of local charitable contributions among a diverse group of community agencies, thereby reducing the fundraising

Table 1 Boys & Girls Club of Decatur Audited Financial Data FY2001 FY2003

	FY2001	FY2002	FY2003
Income	$494,749	$1,012,459	$527,128
Expenses	526,492	593,200	630,737
Surplus/Deficit	(31,743)	419,259	(103,609)
Assets	1,435,802	1,852,811	1,757,199
Liabilities	3,719	1,469	9,466
Net Assets	$1,432,083	$1,851,342	$1,747,733

burden on the nonprofits themselves and the grant administration burden on local corporations. As a centralized source of corporate support, the United Way is the primary funder for many agencies. Under this scenario, it is difficult for nonprofit agencies to diversify their local funding substantially. In fact, the Club predicts that the portion of funding from the United Way will increase to 60 percent by the year 2007 for two reasons: the United Way is moving to categorical funding and youth development is a local priority, and the agency has a strong case for an increased demand for its services with the influx of children from the new elementary school.

Beyond the United Way, it is important to Walt Smith that the Club maintain a balance between government and other sources of income that are less restrictive. He is concerned that too much government funding will prevent him from developing a recreational program focused on social development. For example, he has resisted taking on federal and state programs that focus on academic support and would limit a child's opportunity to "just be a kid" and enjoy time playing with friends. However, under the guidelines of government funding all members must submit their report cards and achieve academically in order to be eligible to participate in recreational activities such as the basketball teams. For the past six years, the Club has participated in an Illinois Alliance of Boys & Girls Clubs which contracts with the State as a Teen REACH provider. The program is designed to provide positive youth activities during nonschool hours and includes parental involvement and community service and academic opportunities that the Club's members do not get at home.

Management Challenges

In discussing the challenges the Club faces, Walt Smith is most concerned about the management challenge of staff development. The Club currently employs five full-time program staff, including the Executive Director, and three part-time employees, and a full-time administrative assistant/ bookkeeper. The Teen REACH program, comprised of four contractual staff, requires case management of 160 youth enrolled in the program. Twenty-five percent of youth enrolled are tracked through school and home visits and the State collects data on school performance and other indicators of development.
As the Club took on programs that relied on a modified case management delivery model and funders began talking about measuring program outcomes, Walt Smith realized that the Club needed better educated and trained staff. It is no longer sufficient to rely on the executive staff to conduct monitoring and reporting. In fact, last year he restructured his program staff so that he could raise their salaries. Walt Smith is looking for individuals who have attended college for several years and are computer proficient. Despite the changes described above, he is still unable to increase compensation much more and is having difficulty attracting the right staff to the Club.

The right staff is critical because Walt Smith would like to introduce new programs in addition to simply expanding to serve more children. An important future role for the Club is to increase access to computer-based academic support and computer training. The Club already needs twice as much capacity as it has in its combined library and computer lab. There are other government programs that could support the Club's mission such as those sponsored by the Office of Juvenile Justice, which is focused on crime prevention through youth development.

While it is not an immediate concern, the Board will also have to address the issue of succession as Walt Smith prepares to retire after more than a quarter of a century of dedication to the organization. A well-trained staff with a good understanding of the mission and needs of the Club can play an important role in facilitating the transition to a new Executive Director. The Club has received enormous benefit from Walt Smith's ability to connect with both children and adults as well as his leadership skills. It has made him a powerful advocate for the Club and its members in Decatur.

Building for the Future: Literally and Figuratively

It is clear that the Club is trying to build for the future in both literal and figurative ways. First, for several years Walt Smith has been planning to build an 8,000 square foot addition. It has become imperative with the influx of new children that will be attending the adjacent elementary school as well as the need for new space to provide computer-based academic support. As noted earlier, Walt Smith has projected that the cost of the facility will be $2.5 million. The Club and its Board of Directors are planning to launch a capital campaign for the building. The current Board of Directors is dedicated to seeing this project come to fruition as soon as possible. Given its history of strong community support, it is likely that the Club will be able to raise the funds for the project. Moreover, the Club will continue to benefit from local concern regarding the children of Decatur and Walt Smith's involvement in the community.

As *Getting It Right* emphasizes, deficits should not be expected on an annual basis. Walt Smith and his Board of Directors are to be commended for addressing the issue on a regular basis, but future discussions might explore additional fundraising efforts that would bring in much needed general and programmatic operating support. This is the type of support that can help bring about Walt Smith's vision of a Club led by staff who are not only committed to youth, but committed to demonstrating that the Club's programs help at-risk children achieve.

Conclusions: Lessons Learned

This case study of the Boys & Girls Club of Decatur provides important insight into some of the challenges faced by Illinois nonprofits that are not located in large urban areas. On the one hand, these organizations receive tremendous support from the community because there may be fewer nonprofits, but their ability to raise funds is limited by lack of access to a broad base of potential funders. Not surprisingly, these organizations face the same pressure as all nonprofits to demonstrate their effectiveness while keeping their administrative costs to the minimum. In the case of the Club, it is evident that despite the above limitations, Walt Smith has been and continues to work proactively to build a nonprofit organization that can respond to the environment. It is not surprising that the first lesson from his experience he shared was "Never give up."

Lessons Learned:

Executive Directors and their Boards are strong advocates for their organizations when they are visible and active in the community.

All community-based nonprofits should establish partnerships with other public and private organizations. Dramatic new partnerships may be required for the Boys and Girls Club of Decatur.

Leaders have a responsibility to communicate that what they do is important for society.

Even while maximizing local financial support, an executive director must actively explore regional and national sources of support.

Boards of directors should monitor financial indicators and address deficits promptly. New financial structures may need to be considered by the Club, including a larger capital campaign, or the use of debt.

Appendices

Appendix A Survey Methodology

The 2004 survey of the financial health of Illinois nonprofits studied a random, representative sample of public charities taken from the Core Files of the National Center for Charitable Statistics (NCCS). Public charities are one component of the group of organizations known as nonprofits, which also includes foundations and other exempt entities.

The Core Files are produced annually by NCCS and include data on 501(c)(3) public charities filing Forms 990 or 990EZ and reporting gross receipts of at least $25,000. All nonprofits are required to file an IRS Form 990 if they have more than $25,000 in gross receipts. Some entities with less than $25,000 in gross receipts may elect to complete an IRS Form 990.

In August 2004, the NCCS files described above were acquired by the IFF. It contained records for 7,947 organizations. Using the National Taxonomy of Exempt Entities (NTEE), exclusion criteria were developed to define a universe of eligible nonprofits. Excluded from the survey universe were nonprofits that:

- Did not provide direct service
- Were religion-related
- Provided services to a select membership or for the mutual benefit of the membership, such as parent teacher associations, scouting organizations, and retirement and pension funds

Once the ineligible nonprofit entities were removed, 7,451 nonprofit organizations remained. A random sample of 2,500 organizations was taken. A paper survey was mailed to the executive director of each nonprofit along with a unique identification number and instructions on how to complete the survey online if they preferred. All nonprofits were sent a follow-up postcard and approximately one-third of the sample also received a follow-up phone call to determine whether they had received the survey and to encourage them to complete it. Two hundred fifty-seven valid responses were received of which 172 were paper responses and 85 were web responses. This represented a 10.3 percent response rate.

Data Validation and Statistical Significance

The survey was administered by the LarsonAllen Public Service Group in Minneapolis, Minnesota. Data validation occurred in two phases. First, submitted paper surveys and online files were reviewed to ensure that the organization was a legitimate respondent and that the submitted survey was valid. Six organizations submitted duplicate surveys; in these cases, responses were verified through communication with the respondent, and duplicate surveys were discarded.

Second, the survey administrator and the IFF checked for inconsistency within the survey responses and reviewed the preliminary results for potential errors in data reporting or entry.

- When a respondent provided more than one response to a single-choice question, that response was excluded from the analysis and appears as a blank in the data.
- Some surveys that were determined to be incomplete were excluded from the analysis.
- Respondents who had omitted only a few responses were contacted to obtain complete information.
- Responses for questions 9, 10 and 12 should have totaled to 100 percent. If responses totaled less than 95 percent or more than 105 percent, they were excluded from the analysis.
- Organizations that did not indicate a primary field of service were coded by the IFF based on the category reported on the NCCS Core File for the nonprofit.
- All respondents were contacted to confirm whether they had correctly indicated where the organization provided services on question 3.

The survey sample of 257 nonprofits is statistically significant at a 95 percent confidence level and has a sampling error of plus or minus six percent.

An important objective for the IFF and Donors Forum of Chicago was to represent Illinois nonprofits in three dimensions: area served or geographic location, field of interest or type of service, and size as determined by annual revenue. To create a sample that was statistically significant within each dimension was impractical given the resources and level of data collection that would have been required. Once all responses had been validated, the distribution of the sample was compared to the 1997 survey sample and to the total universe for Illinois to confirm the level to which the respondents were representative. (See Tables 1 and 2)

Geography or Area Served

Survey respondents were asked to identify their primary area of service. Respondents were able to choose from four different geographic areas: Chicago, Suburban Chicago, Other Metro Areas, and Small City or Rural Areas. Other Metro Areas were defined as the nine standard metropolitan statistical areas (MSAs), at least one urbanized area of 50,000 or more inhabitants, excluding Chicago. The nine MSAs in Illinois other than Chicago are: Bloomington/Normal, Champaign/Urbana, Danville, Moline/Rock Island, Decatur, Kankakee/Bradley, Peoria, Rockford, and Springfield. Findings by subcategory were reported for each of the four geographic areas listed. A small subgroup of organizations did not fall within one of the geographic

Table 1 2004 Survey Sample by Type as Compared to Breakdown of the 1997 Survey Sample and Registered and Reporting Illinois Public Charities

Field of Interest (NTEE Major Category)	2004 Number of Responses	Percent of 2004 Survey Sample	Percent of 1997 Survey Sample	2004 Percent of Registered and Reporting Illinois Public Charities by Percent
Arts, Culture & Humanities	41	16.0%	12.2%	10.7%
Health Care	38	14.8	24.3	13.0
Human Services	98	38.1	29.3	30.8
Public & Societal Benefit	32	12.5	15.4	13.6
Education	43	16.7	9.3	18.0
Other	5	1.9	9.5	13.9
Total	257	100.0%	100.0%	100.0%

areas described above because they provided services in more than one area, statewide, or outside of Illinois. These nonprofits were grouped together under the heading of "Other." However, because there were so few respondents in this category, their responses were not reported as a separate subgroup. Their responses were included in the results for the total sample. (See Profile of Respondents Appendix A)

Type

The NTEE provides the standard descriptive categories for nonprofit fields of interest. There are 10 major categories. As shown in Table 1, this survey reports on five major categories and combines the remaining three categories that were not excluded from the universe into the Other category. Respondents who did not indicate a primary field of interest were classified for analysis by the IFF. The survey sample mirrored the fields of service of registered nonprofits with the exception of Arts, Human Services and Other agencies. (See Table 1) The difference in the percentages of Other nonprofits may have reflected the exclusion of religion-related and mutual benefit organizations from the survey sample.

Size

Nonprofit size was measured by annual revenue. Survey respondents were sorted into the revenue categories listed below based on the reported FY2003 revenue to enable a review of capacity as it relates to size. As Table 2 indicates, the 2004 survey sample includes a higher percentage of mid-size and very large nonprofits as compared with both the 1997 survey and the 2003 Donors Forum of Chicago report, *Illinois Nonprofits: A Profile of Charities and Advocacy Organizations.*[10] The higher participation by larger organizations in 2004 may reflect the change in follow-up protocol. In 1997, the IFF not only made follow-up phone calls but also assisted nonprofits in completing the survey over the phone. Larger nonprofits may have had the organizational capacity necessary to complete a comprehensive survey without additional assistance.

Analysis of Financial Data

The data reported on question 6, which requested financial data for the years 2003, 2002, and 2001 from audited or year-end statements, were validated separately. In order to be included in the analysis, nonprofits were required to provide data for all 18 financial variables in the question. The IFF conducted additional follow-up with those organizations that were missing data for fewer than eight variables in the table. The financial data reported was based on the analysis of 198 responses.

Analysis of Comparative Data

The survey report draws comparisons between the 1997 and 2004 Surveys of the Financial Health of Illinois Nonprofits. In order to ensure that comparisons were made accurately, data from the 1997 Survey of the Financial Health of Illinois Nonprofits were rerun for this analysis. However, due to the changes in methodology between the two surveys, there are slight variations between the 1997 results reported previously and the current report.

Table 2 2004 Survey Sample by Age and Size as Compared to the Breakdown of the 1997 Survey Sample

Revenue	Median Age of Organizations by Revenue	2004 Number of Responses	Percent of 2004 Survey Sample	Percent of 1997 Survey Sample
Under $250,000	16	63	24.5 %	26.8 %
$250,000 to $499,999	25	34	13.2	17.0
$500,000 to $999,999	32	28	10.9	15.0
$1,000,000 to $4,999,999	32	53	20.6	30.2
More than $5,000,000	38	54	21.0	11.1
No response	n/a	25	9.7	0.0

10. Gronbjerg, Kristen A. and Child, Curtis. Illinois Nonprofits: A Profile of Charities and Advocacy Organizations. The Center on Philanthropy at Indiana University and The School of Public & Environmental Affairs at Indiana University. Donors Forum of Chicago. Chicago. 2003.

Appendix B Profile of Survey Respondents, 1997 & 2004

1997 Survey Respondents	N	%	2004 Survey Respondents	N	%
Field of Service			**Field of Service**		
Arts, Culture and Humanities	54	12.2%	Arts, Culture and Humanities	41	16.0%
Health Care	107	24.3	Health Care	38	14.8
Human Services	129	29.3	Human Services	98	38.1
Public and Societal Benefit	68	15.4	Public and Societal Benefit	32	12.5
Education	41	9.3	Education	43	16.7
Other	42	9.5	Other	5	1.9
Total	**441**	**100.0%**	**Total**	**257**	**100.0%**
Area Served			**Area Served**		
Chicago	133	30.2%	Chicago	80	31.1%
Suburban Chicago	125	28.3	Suburban Chicago	83	32.3
Other metro area	69	15.6	Other metro area	40	15.6
Small city/rural	99	22.4	Small city/rural	39	15.2
Statewide, national, international	15	3.4	Other	15	5.8
Total	**441**	**100.0%**	**Total**	**257**	**100.0%**
Annual Revenues			**Annual Revenues**		
Less than $250,000	118	26.8%	Less than $250,00	63	24.5%
$250,000 to $499,999	75	17.0	$250,000 to $499,999	34	13.2
$500,000 to $999,999	66	15.0	$500,000 to $999,999	28	10.9
$1,000,000 to $4,999,999	133	30.2	$1,000,000 to $4,999,999	53	20.6
More than $5,000,000	49	11.1	More than $5,000,000	54	21.0
Other	0	0.0	Other	25	9.7
Total	**441**	**100.0%**	**Total**	**257**	**100.0%**

Appendix C Survey Data by Geography

	All Respondents	Chicago	Suburban Chicago	Other Metro Areas	Small City/Rural
Question 1: Age of Organization	n=257	n=80	n=83	n=40	n=39
	28 years	25.5 years	29 years	38 years	27 years
Q2: Staff and Volunteer Full Time Equivalents (FTES)					
Number of staff (FTEs)	15	25	15	13	13
Full-time FTEs	8	13	8	5	11
Part-time FTEs	5	4	7	8	6
Typical number of volunteers used in a month	15	20	15	10	10
Typical number of volunteer hours in a month	80	100	75	100	70

	FY2001	FY2002	FY2003	FY'01 to FY'02	FY'02 to FY'03
Q3: Financial Profile					
All Respondents					
Income	$1,085,459	$1,074,666	$1,116,90	-1.0%	3.9%
Expense	$1,116,530	$1,175,594	$1,127,906	5.3	-4.1
Surplus/Deficit	$18,294	$2,073	$9,837	-88.7	374.6
Assets	$913,732	$988,784	$1,007,424	8.2	1.9
Liabilities	$180,513	$209,198	$215,159	15.9	2.8
Net Assets	$628,961	$658,831	$695,130	4.7	5.5
Operating Margin	1.9%	.5%	1.6%	-73.7	220
Liabilities as a Percent of Income	.12%	.15%	.13%	25.0	-13.3
Chicago					
Income	$1,517,043	$1,620,188	$1,780,877	6.8%	9.9%
Expense	$1,409,868	$1,378,212	$1,392,916	-2.2	1.1
Surplus/Deficit	$34,345	$22,957	$13,385	-33.2	-41.7
Assets	$1,190,064	$1,618,925	$1,410,918	36.0	-12.8
Liabilities	$358,792	$358,688	$344,442	0.0	-4.0
Net Assets	$673,778	$777,975	$767,675	15.5	-1.3
Operating Margin	1.8%	1.1%	1.1%	-.39	0.0
Liabilities as a Percent of Income	19.6%	20.8%	.17%	5.0	-19.0

Q3: continued	FY2001	FY2002	FY2003	FY'01 to FY'02	FY'02 to FY'03
Suburban Chicago					
Income	$1,141,884	$1,200,720	$1,116,908	5.2%	-7.0%
Expense	$1,200,797	$1,262,383	$1,230,325	5.1	-2.5
Surplus/Deficit	$16,815	$1,307	$17,708	-92.2	1254.5
Assets	$846,177	$977,240	$1,002,004	15.5	2.5
Liabilities	$117,268	$172,894	$113,249	47.4	-34.5
Net Assets	$396,830	$553,556	$538,542	39.5	-2.7
Operating Margin	1.9%	.4%	3.5%	-79	775
Liabilities as a Percent of Income	0.13%	.13%	.13%	0.0	0.0
Other Metro Area					
Income	$554,444	$548,411	$527,128	-1.1%	-3.9%
Expense	$591,966	$604,471	$630,737	2.1	4.3
Surplus/Deficit	$22,022	$5,526	$8,611	-74.9	55.8
Assets	$1,297,337	$1,173,967	$1,438,814	-9.5	22.6
Liabilities	$127,278	$133,074	$234,649	4.6	76.3
Net Assets	$834,400	$948,697	$1,000,000	13.7	5.4
Operating Margin	2.7%	.8%	1.5%	-70.3	87.5
Liabilities as a Percent of Income	8%	.10%	9%	25.0 %	-10.0%
Small City/Rural					
Income	$394,201	$329,660	$397,340	-16.4 %	20.5%
Expense	$353,707	$402,659	$393,095	13.8	-2.4
Surplus/Deficit	$1,954	$1,845	$613	-5.6	-66.8
Assets	$293,474	$366,847	$366,628	25.0	-0.1
Liabilities	$93,224	$96,391	$93,713	3.4	-2.8
Net Assets	$230,323	$227,919	$270,203	-1.0	18.6
Operating Margin	1.2%	-3.9%	.2%	-425	105.0
Liabilities as a Percent of Income	7.4%	15%	12.7%	102%	-15.3%

	1997	2003	2007
Q9: Income Sources 1997, 2003, & Projected 2007, mean			
All Respondents			
Government grants/contracts	38.0%	34.3%	31.9 %
Earned income	23.9	20.9	21.2
Individual donations/memberships	13.7	14.0	14.5
Foundation/corporate grants	11.9	10.2	11.3
Fundraisers/events	6.7	9.5	10.1
United Way/federated funds	3.7	1.8	1.9
Other	2.1	9.5	9.0
Total	**100%**	**100%**	**100 %**
Chicago			
Government grants/contracts	31.6%	30.7%	30.9 %
Earned income	20.0	18.4	19.6
Individual donations/memberships	15.4	13.9	14.5
Foundation/corporate grants	22.2	20.1	18.9
Fundraisers/events	6.9	8.7	8.6
United Way/federated funds	2.1	0.5	0.6
Other	2.2	6.8	5.8
Total	**100%**	**99%**	**99 %**

Q9: continued	1997	2003	2007
Suburban Chicago			
Government grants/contracts	35.0%	33.0%	32.0%
Earned income	31.7	19.0	18.5
Individual donations/memberships	13.2	15.2	15.0
Foundation/corporate grants	6.0	7.4	9.1
Fundraisers/events	7.3	12.2	13.8
United Way/federated funds	5.2	2.1	2.2
Other	1.6	11.0	9.1
Total	**100%**	**101%**	**99%**
Other Metro Area			
Government grants/contracts	47.1%	37.0%	29.4%
Earned income	22.3	26.6	26.8
Individual donations/memberships	10.6	16.3	18.0
Foundation/corporate grants	4.6	5.0	8.1
Fundraisers/events	6.4	3.7	4.8
United Way/federated funds	6.2	3.4	3.5
Other	2.9	8.6	9.5
Total	**100%**	**101%**	**100%**
Small City Rural			
Government grants/contracts	47.1%	39.1%	32.8%
Earned income	23.2	21.7	21.3
Individual donations/memberships	13.4	12.8	12.9
Foundation/corporate grants	7.7	2.0	5.2
Fundraisers/events	3.4	9.1	12.1
United Way/federated funds	3.4	2.3	2.0
Other	2.5	14.5	11.4
Total	**101%**	**101%**	**98%**

	All Respondents	Chicago	Suburban Chicago	Other Metro Areas	Small City/Rural
Q10: Percent of Operating Budget by Area					
Programs	75.4%	79.0%	82.0%	82.5%	80.0%
Fundraising	6.5	5.0	4.2	1.0	0.0
Administration/Finance	18.1	12.0	12.0	15.5	15.0
Total	**100.0%**	**96.0%**	**98.2%**	**99.0%**	**95.0%**
Q11: Percent of Budget on Salary and Benefits					
FY 2003 operating budget from salary and benefits	55.0%	55.0%	55.5%	53.0%	62.0%

	All Respondents	Chicago	Suburban Chicago	Other Metro Areas	Small City/Rural
Q12: Certainty of Total Income					
Confirmed	38.3%	42.4%	36.8%	38.4%	32.2%
Expected	44.7	40.6	43.8	43.4	52.1
Unsure	17.1	16.2	19.1	18.2	15.7
Total	**100.0%**	**99.3%**	**99.7%**	**100.0%**	**100.0%**
Q13: Financial Health of Your Organization					
Financially healthy and presently vulnerable	33.9%	36.3%	39.5%	25.6%	28.2%
Financially healthy to date, but feel vulnerable in the future	46.6	46.3	39.5	56.4	46.2
Have chronic financial problems, but expect to survive	18.7	17.5	19.8	17.9	23.1
Don't know how we will survive	0.1	0.0	1.2	0.0	2.6
Total	**99.3%**	**100.1%**	**100.0%**	**99.9%**	**100.1%**
Q14: Cash Reserve & Size					
Have a cash reserve	64.8%	58.8%	66.3%	66.7%	69.2%
Size					
One month or less	19.8%	15.2%	20.4%	23.1%	25.0%
Two to three months	40.1	37.0	38.9	46.2	50.0
Four or more months	40.1	47.8	40.7	30.8	25.0
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Q15: Endowment and Its Median Size					
Have an Endowment	30.4%	35.1%	23.8%	41.0%	28.2%
Size of Endowment	$750,000	$1,100,000	$330,000	$625,000	$278,000
Q16: In-house Bookkeeper or Accountant					
In-house bookkeeper/accountant on staff	68.7%	72.2%	65.0%	61.5%	74.4%
Q17: In-house Development Director					
Development Director on staff	46.8%	67.1%	48.8%	30.0%	20.5%
Q18: Who is Most Responsible for Financial Success or Failure of Your Organization					
Executive Director	62.8%	66.2%	61.5%	60.5%	62.2%
Board of Directors	24.8	16.6	29.5	31.6	24.3
Program Managers	2.9	5.2	2.6	0.0	2.7
Financial Manager/Accountant	1.7	1.3	1.3	2.6	2.7
Development Director	0.0	0.0	0.0	0.0	0.0
Other	7.9	10.4	5.1	5.3	8.1
Q22: Percent of Nonprofits Reporting Cash Flow Problems by Year					
2003	50.2%	58.4%	38.0%	63.2%	51.3%
2002	49.6	51.9	44.9	63.2	48.7
2001	43.9	51.9	38.0	52.6	39.5
Q23: Percent of Nonprofits Reporting a Surplus by Year					
2003	54.2%	58.7%	56.4%	43.2%	44.4%
2002	50.0	57.3	50.6	40.5	45.9
2001	48.5	48.0	48.7	50.0	50.0
Q24: Percent of Nonprofits Reporting a Deficit by Year					
2003	40.3%	39.4%	37.5%	44.4%	51.4%
2002	45.6	40.0	45.9	52.6	47.1
2001	42.0	43.5	43.8	36.1	38.2

	All Respondents	Chicago	Suburban Chicago	Other Metro Areas	Small City/Rural
Q24: Frequency of Deficits					
No reported deficit	35.3%	38.2%	33.3%	28.9%	37.8%
Deficit in one year	25.7	27.6	29.5	28.9	16.2
Deficit in two years	22.8	17.1	21.8	26.3	27.0
Deficit in three years	16.2	17.1	15.4	15.8	18.9
Q25: Borrowed Money in the Past 12 Months					
	31.7%	39.0%	23.8%	34.2%	38.5%
Q29: Condition of Facility					
Excellent	29.9%	32.9%	31.6%	20.0%	32.4%
Good	44.8	39.7	49.4	47.5	43.2
Acceptable	17.8	16.4	15.2	27.5	10.8
Barely Acceptable	7.1	9.6	3.8	5.0	13.5
Unacceptable	0.4	1.4	0.0	0.0	0.0
Q30: Facilities Reserve					
Maintain a facilities reserve	32.9%	32.5%	26.3%	44.7%	35.9%
Q37: Number of Organizations Reporting Use of Specific Technologies					
Local area network	148	56	46	22	17
Personal Computers	239	78	78	39	33
E-mail	234	78	75	36	33
Dial-up internet	76	19	25	11	16
Direct internet access	184	64	64	26	21
Firewall	189	67	60	29	24
Web-site	197	70	70	27	20
General productivity software	219	72	68	35	33
Fund accounting software	97	37	31	15	9
General accounting software	174	57	52	28	30
Database of constituents	194	69	62	31	22
Q39: Describe Organization's Use of Technology					
Up-to-date technology	30.2%	33.3%	32.1%	26.3%	15.4%
Sufficient technology	35.9	37.2	38.3	34.2	35.9
Do not fully use technology	23.4	23.1	18.5	31.6	25.6
Out of date	4.0	3.8	2.5	2.6	10.3
Use IT minimally or not at all	6.5	2.6	8.6	5.3	12.8
Q40: Person with Primary Responsibility for Technology Support					
Executive Director	13.9%	7.7%	11.0%	19.4%	23.1%
Dedicated MIS/technology staff	28.6	42.3	26.0	13.9	12.8
NonMIS/technology Staff	26.5	21.8	28.8	38.9	25.6
Volunteer	10.5	10.3	11.0	11.1	12.8
Contract/Consultant	10.5	9.0	13.7	11.1	7.7
No Specific Person	10.1	9.0	9.6	5.6	17.9
Q43: Tenure of Executive Director					
	6 years	6 years	5 years	10 years	6.5 years
Q44: Percent of Nonprofits Reporting the Retirement of Executive Director within 5 years					
	26.5%	27.6%	22.1%	27.0%	29.7%
Q46: Does Your Organization Have the Right Board for the Future					
Agree	66.8%	61.6%	65.8%	66.7%	80.0%
Disagree	33.2	38.4	34.2	33.3	20.0

	Significant Negative Impact	Some Negative Impact	No Impact	Some Positive Impact	Major Positive Impact
Q49: Effect of Environmental Changes on Nonprofits					
All Respondents					
Economic downturn/recession	27.6%	56.4%	13.6%	1.6%	0.8%
Widespread layoffs	11.1	34.4	52.5	1.6	0.4
Restructuring of public sector support	10.0	41.0	45.6	2.9	0.4
Reduction in federal funds	14.9	32.4	51.9	0.4	0.4
Reduction in individual contributions	17.4	44.6	35.1	2.9	0.0
Decline in endowments	5.9	16.0	77.2	0.8	0.0
Complete cuts or elimination of programs	9.7	28.2	59.2	2.9	0.0
Mergers	1.3	5.5	90.7	1.7	0.8
Internal restructuring designed to reduce costs	3.8	18.1	54.9	18.1	5.1
Chicago					
Economic downturn/recession	30.8%	53.8%	11.5%	2.6%	1.3%
Widespread layoffs	9.1	33.8	54.5	2.6	0.0
Restructuring of public sector support	10.3	53.8	32.1	2.6	1.3
Reduction in federal funds	10.4	41.6	46.8	0.0	1.3
Reduction in individual contributions	22.4	44.7	31.6	1.3	0.0
Decline in endowments	8.0	21.3	70.7	0.0	0.0
Complete cuts or elimination of programs	15.6	20.8	57.1	6.5	0.0
Mergers	1.3	6.6	89.5	2.6	0.0
Internal restructuring designed to reduce costs	5.2	19.5	55.8	15.6	3.9
Suburban Chicago					
Economic downturn/recession	27.3%	57.1%	15.6%	0.0%	0.0%
Widespread layoffs	11.7	39.0	48.1	1.3	0.0
Restructuring of public sector support	6.7	40.0	49.3	4.0	0.0
Reduction in federal funds	17.1	27.6	55.3	0.0	0.0
Reduction in individual contributions	16.9	48.1	32.5	2.6	0.0
Decline in endowments	4.1	12.3	83.6	0.0	0.0
Complete cuts or elimination of programs	5.3	32.0	62.7	0.0	0.0
Mergers	1.4	8.3	87.5	1.4	1.4
Internal restructuring designed to reduce costs	1.4	12.3	56.2	21.9	8.2
Other Metro Area					
Economic downturn/recession	23.1%	59.0%	12.8%	2.6%	2.6%
Widespread layoffs	10.3	35.9	51.3	0.0	2.6
Restructuring of public sector support	5.4	40.5	51.4	2.7	0.0
Reduction in federal funds	7.9	42.1	50.0	0.0	0.0
Reduction in individual contributions	10.3	48.7	35.9	5.1	0.0
Decline in endowments	7.7	12.8	74.4	5.1	0.0
Complete cuts or elimination of programs	10.5	28.9	60.5	0.0	0.0
Mergers	2.6	5.3	92.1	0.0	0.0
Internal restructuring designed to reduce costs	7.9	23.7	57.9	7.9	2.6

	Significant Negative Impact	Some Negative Impact	No Impact	Some Positive Impact	Major Positive Impact
Small city/rural					
Economic downturn/recession	31.6%	52.6%	13.2%	2.6%	0.0%
Widespread layoffs	17.9	30.8	48.7	2.6	0.0
Restructuring of public sector support	18.4	26.3	52.6	2.6	0.0
Reduction in federal funds	26.3	21.1	52.6	0.0	0.0
Reduction in individual contributions	17.9	38.5	41.0	2.6	0.0
Decline in endowments	5.3	15.8	78.9	0.0	0.0
Complete cuts or elimination of programs	5.4	40.5	51.4	2.7	0.0
Mergers	0.0	0.0	97.4	0.0	2.6
Internal restructuring designed to reduce costs	2.6	26.3	50.0	15.8	5.3

	Significant Decline	Some Decline	No Change	Some Increase	Significant Increase
Q50: Changes in Organizations Capacity during Past 3 Years					
All Respondents					
Strategic Planning	1.2%	9.1%	34.2%	36.2%	19.3%
Accounting/Bookkeeping	0.4	3.7	42.7	35.4	17.9
Personnel management	2.0	4.5	49.2	35.8	8.5
Board training	0.8	6.2	50.2	34.2	8.6
Overall financial management	1.6	3.7	35.9	40.8	18.0
Budgeting	2.4	3.3	36.6	43.1	14.6
Fundraising	2.0	8.9	29.3	45.5	14.2
Program evaluation	0.4	4.5	38.9	43.4	12.7
Information Technology	0.8	4.1	27.5	48.4	19.3
Chicago					
Strategic Planning	1.3%	6.4%	33.3%	35.9%	23.1%
Accounting/Bookkeeping	0.0	5.1	34.6	42.3	17.9
Personnel management	0.0	6.3	48.1	35.4	10.1
Board training	0.0	5.1	47.4	33.3	14.1
Overall financial management	1.3	5.1	31.6	40.5	21.5
Budgeting	0.0	2.5	32.9	44.3	20.3
Fundraising	1.3	12.7	20.3	49.4	16.5
Program evaluation	0.0	6.4	35.9	46.2	11.5
Information Technology	1.3	5.1	26.9	44.9	21.8

	Significant Decline	Some Decline	No Change	Some Increase	Significant Increase
Suburban Chicago					
Strategic Planning	2.6%	3.9%	32.5%	42.9%	18.2%
Accounting/Bookkeeping	0.0	2.6	47.4	30.8	19.2
Personnel management	2.6	2.6	44.9	41.0	9.0
Board training	1.3	5.1	50.0	38.5	5.1
Overall financial management	0.0	3.8	32.1	44.9	19.2
Budgeting	1.3	2.6	38.5	41.0	16.7
Fundraising	1.3	6.4	30.8	44.9	16.7
Program evaluation	0.0	1.3	41.0	42.3	15.4
Information Technology	0.0	3.8	23.1	48.7	24.4
Other Metro Area					
Strategic Planning	0.0%	13.2%	42.1%	31.6%	13.2%
Accounting/Bookkeeping	0.0	2.6	38.5	41.0	17.9
Personnel management	5.3	0.0	57.9	28.9	7.9
Board training	2.6	10.5	52.6	28.9	5.3
Overall financial management	2.6	2.6	42.1	34.2	18.4
Budgeting	2.6	7.9	34.2	47.4	7.9
Fundraising	2.6	5.3	28.9	52.6	10.5
Program evaluation	2.7	2.7	40.5	40.5	13.5
Information Technology	2.6	2.6	39.5	31.6	23.7
Small city/rural					
Strategic Planning	0.0%	21.1%	39.5%	23.7%	15.8%
Accounting/Bookkeeping	2.6	5.1	51.3	25.6	15.4
Personnel management	0.0	7.7	51.3	35.9	5.1
Board training	0.0	0.0	45.5	36.4	18.2
Overall financial management	5.3	2.6	47.4	36.8	7.9
Budgeting	10.3	2.6	41.0	38.5	7.7
Fundraising	2.6	10.3	41.0	38.5	7.7
Program evaluation	0.0	10.3	41.0	38.5	10.3
Information Technology	0.0	5.3	28.9	63.2	2.6

	All Respondents	Chicago	Suburban Chicago	Other Metro Areas	Small City/Rural
Q54: Which Statement Best Describes Your Organization's Future					
Programs will remain unchanged	16.7%	11.4%	18.7%	18.9%	24.3%
Will expand services in key areas	59.2	63.3	62.7	54.1	43.2
Need to reduce key programs	7.1	8.9	4.0	8.1	8.1
Examine all existing assumptions	17.1	16.5	14.7	18.9	24.3

Appendix D Survey Data by Organization Type

	All Respondents	Arts, Culture and Humanities	Health Care	Public and Societal Benefit	Human Services	Education
Question 1: Age of Organization	n=257	n=41	n=38	n=32	n=98	n=43
	28 years	28 years	29 years	23 years	30 years	23 years
Q2: Staff and Volunteer Full Time Equivalents (FTES)						
Number of staff (FTEs)	15	5	29	5	32	7
Full-time FTEs	8	4	19	6	17	6
Part-time FTEs	5	4	7	3	9	5
Typical number of volunteers used in a month	15	18	10	13	21	12
Typical number of volunteer hours in a month	80	75	45	93	125	35

	FY2001	FY 2002	FY 2003	FY'01 to FY'02	FY'02 to FY'03
Q3: Financial Profile					
All Respondents					
Income	$1,085,459	$1,074,666	$1,116,90	-1.0%	3.9%
Expense	$1,116,530	$1,175,594	$1,127,906	5.3	-4.1
Surplus/Deficit	$18,294	$2,073	$9,837	-88.7	374.6
Assets	$913,732	$988,784	$1,007,424	8.2	1.9
Liabilities	$180,513	$209,198	$215,159	15.9	2.8
Net Assets	$628,961	$658,831	$695,130	4.7	5.5
Operating Margin	1.9%	.5%	1.6%	-73.7	220
Liabilities as a Percent of Income	.12%	.15%	.13%	25.0	-13.3
Arts, Culture and Humanities					
Income	$555,454	$548,411	$575,750	-1.3%	5.0%
Expense	$550,645	$579,442	$577,564	5.2	-0.3
Surplus/Deficit	$27,235	$4,626	$5,712	-83.0	23.5
Assets	$352,164	$500,565	$574,613	42.1	14.8
Liabilities	$196,078	$201,489	$162,790	2.8	-19.2
Net Assets	$347,004	$418,112	$538,542	20.5	28.8
Operating Margin	2.5%	1.4%	3.0%	-44	114
Liabilities as a Percent of Income	6.9%	12.5%	8.7%	85.7	-30.8

Q3: continued	FY2001	FY 2002	FY 2003	FY'01 to FY'02	FY'02 to FY'03
Health Care					
Income	$1,680,025	$1,771,022	$1,973,354	5.4%	11.4%
Expense	$1,601,729	$1,735,237	$1,748,909	8.3	0.8
Surplus/Deficit	$17,906	$25,954	$97,940	44.9	277.4
Assets	$2,192,307	$2,068,936	$2,099,659	-5.6	1.5
Liabilities	$620,320	$604,210	$660,000	-2.6	9.2
Net Assets	$924,273	$947,899	$1,047,000	2.6	10.5
Operating Margin	1.7%	2.0%	2.8%	17.6	40.0
Liabilities as a Percent of Income	6.9%	12.6%	8.7%	-83	-31
Public and Societal Benefit					
Income	$340,633	$365,832	$428,399	7.4%	17.1%
Expense	$345,906	$328,364	$425,273	-5.1	29.5
Surplus/Deficit	$275	-$3,083	-$10,703	-1219.8	247.1
Assets	$576,420	$578,879	$500,431	0.4	-13.6
Liabilities	$113,652	$110,774	$66,216	-2.5	-40.2
Net Assets	$576,420	$469,370	$325,000	-18.6	-30.8
Operating Margin	0%	-1.0%	0%	-100.0	N/A
Liabilities as a Percent of Income	8.7%	14.9%	7.1%	71.3	-52.3
Human Services					
Income	$2,023,897	$2,037,718	$2,347,141	0.7%	15.2%
Expense	$2,007,724	$2,236,538	$2,335,449	11.4	4.4
Surplus/Deficit	$29,699	$1,337	$10,919	-95.5	716.7
Assets	$1,711,919	$1,620,057	$1,757,199	-5.4	8.5
Liabilities	$351,156	$373,147	$408,761	6.3	9.5
Net Assets	$988,314	$943,203	$844,321	-4.6	-10.5
Operating Margin	1.6%	0%	1.1%	-100.0	N/A
Liabilities as a Percent of Income	13.6%	18%	16.5%	32	-8.3
Education					
Income	$449,496	$358,726	$350,000	-20.2%	-2.4%
Expense	$384,858	$416,760	$435,196	8.3	4.4
Surplus/Deficit	$10,430	-$1,388	$11,122	-113.3	-901.4
Assets	$449,508	$411,069	$445,136	-8.6	8.3
Liabilities	$32,658	$48,679	$32,525	49.1	-33.2
Net Assets	$318,862	$282,418	$193,123	-11.4	-31.6
Operating Margin	6.1%	2.0%	6.1%	67.2	205.0
Liabilities as a Percent of Income	7.3%	7.3%	6.3%	0.0	-13.7

	1997	2003	2007
Q9: Income Sources 1997, 2003, & Projected 2007, mean			
All Respondents			
Government grants/contracts	38.0%	34.3%	31.9%
Earned income	23.9	20.9	21.2
Individual donations/memberships	13.7	14.0	14.5
Foundation/corporate grants	11.9	10.2	11.3
Fundraisers/events	6.7	9.5	10.1
United Way/federated funds	3.7	1.8	1.9
Other	2.1	9.5	9.0
Total	100%	100%	100%

Q9: continued	1997	2003	2007
Arts, Culture and Humanities			
Government grants/contracts	8.3%	14.2%	15.1%
Earned income	39.9	32.8	34.5
Individual donations/memberships	20.1	21.9	20.4
Foundation/corporate grants	23.0	16.7	13.3
Fundraisers/events	7.1	10.0	8.6
United Way/federated funds	0.0	0.0	0.3
Other	1.7	4.3	7.8
Total	100%	100%	100%
Health Care			
Government grants/contracts	50.9%	34.6%	31.6%
Earned income	24.8	25.0	24.9
Individual donations/memberships	8.7	14.2	15.0
Foundation/corporate grants	4.2	5.0	6.8
Fundraisers/events	6.6	12.3	12.9
United Way/federated funds	3.3	1.9	2.1
Other	1.7	7.0	6.6
Total	100%	100%	100%
Public and Societal Benefit			
Government grants/contracts	43.5%	29.0%	24.4%
Earned income	9.2	18.1	21.2
Individual donations/memberships	10.7	18.0	19.5
Foundation/corporate grants	22.4	10.3	13.2
Fundraisers/events	7.0	15.8	13.8
United Way/federated funds	3.3	1.2	1.2
Other	4.0	7.7	6.7
Total	100%	100%	100%
Human Services			
Government grants/contracts	45.7%	49.1%	46.8%
Earned income	17.3	14.5	13.7
Individual donations/memberships	14.1	7.8	9.1
Foundation/corporate grants	6.6	9.8	12.2
Fundraisers/events	7.1	5.3	6.2
United Way/federated funds	7.3	3.1	3.1
Other	2.0	10.5	9.0
Total	100%	100%	100%
Education			
Government grants/contracts	22.4%	20.5%	22.2%
Earned income	39.5	25.7	26.2
Individual donations/memberships	16.0	15.0	15.4
Foundation/corporate grants	12.2	10.4	9.6
Fundraisers/events	8.6	10.8	12.1
United Way/federated funds	0.2	1.1	1.1
Other	1.5	16.6	13.3
Total	100%	100%	100%

	All Respondents	Arts, Culture and Humanities	Health Care	Public and Societal Benefit	Human Services	Education
Q10: Percent of Operating Budget by Area						
Programs	75.4%	68.5%	73.3%	77.6%	79.0%	72.8%
Fundraising	6.5	9.3	10.6	6.5	4.7	5.3
Administration/Finance	18.1	22.2	16.1	15.8	16.4	22.0
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Q11: Percent of Budget on Salary and Benefits						
Percentage of FY 2003 operating budget from salary and benefits	55.0%	36.5%	57.0%	51.0%	64.0%	58.0%
Q12: Certainty of Total Income						
Confirmed	38.3%	33.6%	34.6%	33.9%	44.4%	35.4%
Expected	44.7	41.7	50.6	47.0	42.2	45.3
Unsure	17.1	24.6	14.8	19.1	13.3	19.3
Q13: Financial Health of Your Organization						
Financially healthy and not presently vulnerable	33.9%	37.5%	38.9%	28.1%	32.3%	33.3%
Financially healthy to date, but vulnerable in the future	46.6	47.5	52.8	37.5	47.9	45.2
Chronic financial problems, but expect to survive	18.7	15.0	5.6	31.3	9.8	21.4
Don't know how we will survive	0.1	0.0	2.8	3.1	0.0	0.0
Total	**99.3%**	**100.0%**	**100.0%**	**100.0%**	**90.0%**	**100.0%**
Q14: Cash Reserve & Size						
Have a cash reserve	64.8%	58.5%	70.3%	56.3%	65.6%	69.0%
Size						
One month or less	19.8%	12.5%	19.2%	22.2%	30.6%	3.6%
Two to three months	40.1	41.7	53.8	27.8	41.9	35.7
Four or more months	40.1	45.8	26.9	50.0	27.4	60.7
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Q15: Endowment and Its Median Size						
Have an Endowment	30.4%	45.0%	17.9%	28.1%	30.9%	27.5%
Size of Endowment	$750,000	$929,727	$173,555	$500,000	$1,000,000	$83,250
Q16: In-house Bookkeeper or Accountant						
In-house bookkeeper/accountant on staff	68.7%	63.4%	83.8%	68.8%	73.7%	51.3%
Q17: In-house Development Director						
Development Director on staff	46.8%	63.4%	48.6%	37.5%	51.0%	31.7%
Q18: Who is Most Responsible for Financial Success or Failure of Your Organization						
Executive Director	62.8%	58.5%	77.8%	59.4%	66.7%	45.7%
Board of Directors	24.8	29.3	16.7	28.1	21.5	34.3
Program Managers	2.9	0.0	2.8	6.3	1.1	5.7
Financial Manager/Accountant	1.7	0.0	0.0	0.0	3.2	2.9
Development Director	0.0	0.0	0.0	0.0	0.0	0.0
Other	7.9	12.2	2.8	6.3	7.5	11.4

	All Respondents	Arts, Culture and Humanities	Health Care	Public and Societal Benefits	Human Services	Education
Q22: Percent of Nonprofits Reporting Cash Flow Problems by Year						
2003	50.2%	56.4%	27.0%	61.3%	61.3%	30.0%
2002	49.6	64.1	32.4	50.0	55.9	32.5
2001	43.9	56.4	27.0	51.6	51.1	25.0
Q23: Percent of Nonprofits Reporting a Surplus by Year						
2003	54.2%	57.9%	66.7%	43.3%	49.5%	56.4%
2002	50.0	46.2	58.3	40.0	48.9	52.6
2001	48.5	51.3	52.8	43.3	46.7	50.0
Q24: Percent of Nonprofits Reporting a Deficit by Year						
2003	40.3%	36.1%	26.5%	50.0%	46.0%	35.3%
2002	45.6	55.9	37.1	51.7	46.2	40.0
2001	42.0	41.7	37.1	40.7	47.1	34.3
Q24: Frequency of Deficits						
No reported deficit	35.3%	28.2%	43.2%	30.0%	32.3%	45.9%
Deficit in one year	25.7	33.3	32.4	26.7	21.5	21.6
Deficit in two years	22.8	28.2	10.8	20.0	28.0	16.2
Deficit in three years	16.2	10.3	13.5	23.3	18.3	16.2
Q25: Borrowed Money in the Past 12 Months						
	31.7%	61.5%	78.4%	71.0%	60.0%	84.6%
Q29: Condition of Facility						
Excellent	29.9%	32.5%	35.3%	46.7%	23.2%	27.0%
Good	44.8	42.5	38.2	30.0	49.5	48.6
Acceptable	17.8	22.5	17.6	13.3	18.9	16.2
Barely Acceptable	7.1	2.5	8.8	6.7	8.4	8.1
Unacceptable	0.4	0.0	0.0	3.3	0.0	0.0
Q30: Facilities Reserve						
Maintain a facilities reserve	32.9%	35.0%	33.3%	25.0%	38.3%	28.2%
Q37: Number of Organizations Reporting Use of Specific Technologies						
Local area network	148	23	28	17	60	18
Personal Computers	239	38	35	30	93	39
E-mail	234	39	35	29	88	38
Dial-up internet	76	12	13	7	33	9
Direct internet access	184	30	30	24	71	28
Firewall	189	27	31	24	77	28
Web-site	197	36	30	25	70	33
General productivity software	219	35	33	28	87	31
Fund accounting software	97	11	18	10	49	8
General accounting software	174	31	26	19	66	27
Database of constituents	194	39	32	22	69	28

	All Respondents	Arts, Culture and Humanities	Health Care	Public and Societal Benefit	Human Services	Education
Q39: Describe Organization's Use of Technology						
Up-to-date technology	30.2%	29.3%	43.2%	30.0%	27.7%	29.3%
Sufficient technology	35.9	22.0	37.8	40.0	40.4	36.6
Do not fully use technology	23.4	34.1	16.2	23.3	22.3	17.1
Out of date	4.0	7.3	0.0	3.3	4.3	4.9
Use IT minimally or not at all	6.5	7.3	2.7	3.3	5.3	12.2
Q40: Person with Primary Responsibility for Technology Support						
Executive Director	13.9%	15.0%	10.8%	20.0%	11.4%	18.4%
Dedicated MIS/technology staff	28.6	22.5	43.2	20.0	35.2	15.8
NonMIS/technology Staff	26.5	22.5	32.4	16.7	31.8	15.8
Volunteer	10.5	10.0	2.7	13.3	8.0	21.1
Contract/Consultant	10.5	7.5	5.4	13.3	10.2	18.4
No Specific Person	10.1	22.5	5.4	16.7	3.4	10.5
Q43: Tenure of Executive Director						
	6 years	6 years	5 years	5 years	9 years	7 years
Q44: Percent of Nonprofits Reporting Retirement of Executive Director within 5 years						
	26.5%	31.6%	16.2%	25.8%	34.4%	8.8%
Q46: Does Your Organization Have the Right Board for the Future						
Agree	66.8%	64.1%	69.4%	63.3%	64.8%	77.1%
Disagree	33.2	35.9	30.6	36.7	35.2	22.9

	Significant Negative Impact	Some Negative Impact	No Impact	Some Positive Impact	Major Positive Impact
Q49: Effect of Environmental Changes on Nonprofits					
All Respondents					
Economic downturn/recession	27.6%	56.4%	13.6%	1.6%	0.8%
Widespread layoffs	11.1	34.4	52.5	1.6	0.4
Restructuring of public sector support	10.0	41.0	45.6	2.9	0.4
Reduction in federal funds	14.9	32.4	51.9	0.4	0.4
Reduction in individual contributions	17.4	44.6	35.1	2.9	0.0
Decline in endowments	5.9	16.0	77.2	0.8	0.0
Complete cuts or elimination of programs	9.7	28.2	59.2	2.9	0.0
Mergers	1.3	5.5	90.7	1.7	0.8
Internal restructuring designed to reduce costs	3.8	18.1	54.9	18.1	5.1

	Significant Negative Impact	Some Negative Impact	No Impact	Some Positive Impact	Major Positive Impact
Q49: Effect of Environmental Changes on Nonprofits					
Arts, Culture and Humanities					
Economic downturn/recession	17.5%	80.0%	2.5%	0.0%	0.0%
Widespread layoffs	2.6	43.6	53.8	0.0	0.0
Restructuring of public sector support	5.0	45.0	45.0	5.0	0.0
Reduction in federal funds	5.0	42.5	52.5	0.0	0.0
Reduction in individual contributions	22.5	57.5	17.5	2.5	0.0
Decline in endowments	2.5	25.0	70.0	2.5	0.0
Complete cuts or elimination of programs	2.6	17.9	74.4	5.1	0.0
Mergers	0.0	7.5	92.5	0.0	0.0
Internal restructuring designed to reduce costs	2.5	12.5	62.5	22.5	0.0
Health Care					
Economic downturn/recession	25.7%	51.4%	22.9%	0.0%	0.0%
Widespread layoffs	8.3	16.7	72.2	2.8	0.0
Restructuring of public sector support	8.6	42.9	48.6	0.0	0.0
Reduction in federal funds	17.1	31.4	51.4	0.0	0.0
Reduction in individual contributions	11.1	38.9	47.2	2.8	0.0
Decline in endowments	0.0	15.2	84.8	0.0	0.0
Complete cuts or elimination of programs	8.6	45.7	42.9	2.9	0.0
Mergers	3.0	6.1	87.9	3.0	0.0
Internal restructuring designed to reduce costs	3.0	18.2	48.5	21.2	9.1
Public and Societal Benefit					
Economic downturn/recession	25.8%	48.4%	19.4%	6.5%	0.0%
Widespread layoffs	12.9	22.6	58.1	6.5	0.0
Restructuring of public sector support	12.9	29.0	54.8	3.2	0.0
Reduction in federal funds	16.1	19.4	64.5	0.0	0.0
Reduction in individual contributions	16.1	41.9	35.5	6.5	0.0
Decline in endowments	9.7	9.7	80.6	0.0	0.0
Complete cuts or elimination of programs	12.9	32.3	48.4	6.5	0.0
Mergers	3.2	3.2	93.5	0.0	0.0
Internal restructuring designed to reduce costs	3.2	16.1	64.5	16.1	0.0
Human Services					
Economic downturn/recession	34.4%	53.8%	8.6%	1.1%	2.2%
Widespread layoffs	17.0	40.4	40.4	1.1	1.1
Restructuring of public sector support	10.0	45.6	41.1	2.2	1.1
Reduction in federal funds	19.4	38.7	39.8	1.1	1.1
Reduction in individual contributions	19.6	38.0	39.1	3.3	0.0
Decline in endowments	7.6	15.2	76.1	1.1	0.0
Complete cuts or elimination of programs	9.9	29.7	59.3	1.1	0.0
Mergers	0.0	6.7	87.8	3.3	2.2
Internal restructuring designed to reduce costs	6.6	22.0	42.9	19.8	8.8

Q49: continued	Significant Negative Impact	Some Negative Impact	No Impact	Some Positive Impact	Major Positive Impact
Education					
Economic downturn/recession	25.6%	48.7%	23.1%	2.6%	0.0%
Widespread Layoffs	7.7	33.3	59.0	0.0	0.0
Restructuring of public sector support	13.2	34.2	47.4	5.3	0.0
Reduction in federal funds	13.5	18.9	67.6	0.0	0.0
Reduction in individual contributions	13.2	52.6	34.2	0.0	0.0
Decline in endowments	5.6	13.9	80.6	0.0	0.0
Complete cuts or elimination of programs	16.2	13.5	67.6	2.7	0.0
Mergers	2.7	2.7	94.6	0.0	0.0
Internal restructuring designed to reduce costs	0.0	18.9	67.6	10.8	2.7

	Significant Decline	Some Decline	No Change	Some Increase	Significant Increase
Q50: Changes in Organizational Capacity During Last 3 Years					
All Respondents					
Strategic Planning	1.2%	9.1%	34.2%	36.2%	19.3%
Accounting/Bookkeeping	0.4	3.7	42.7	35.4	17.9
Personnel management	2.0	4.5	49.2	35.8	8.5
Board training	0.8	6.2	50.2	34.2	8.6
Overall financial management	1.6	3.7	35.9	40.8	18.0
Budgeting	2.4	3.3	36.6	43.1	14.6
Fundraising	2.0	8.9	29.3	45.5	14.2
Program evaluation	0.4	4.5	38.9	43.4	12.7
Information Technology	0.8	4.1	27.5	48.4	19.3
Arts, Culture and Humanities					
Strategic Planning	0.0%	12.2%	26.8%	41.5%	19.5%
Accounting/Bookkeeping	0.0	2.4	36.6	41.5	19.5
Personnel management	2.4	4.9	53.7	29.3	9.8
Board training	0.0	7.3	41.5	48.8	2.4
Overall financial management	0.0	7.3	29.3	48.8	14.6
Budgeting	0.0	4.9	26.8	56.1	12.2
Fundraising	7.3	9.8	9.8	46.3	26.8
Program evaluation	0.0	7.3	29.3	53.7	9.8
Information Technology	2.4	7.3	24.4	61.0	4.9
Health Care					
Strategic Planning	2.9%	8.6%	31.4%	37.1%	20.0%
Accounting/Bookkeeping	0.0	2.8	44.4	33.3	19.4
Personnel management	2.8	2.8	38.9	41.7	13.9
Board training	0.0	5.7	57.1	25.7	11.4
Overall financial management	2.9	2.9	42.9	25.7	25.7
Budgeting	2.8	2.8	41.7	30.6	22.2
Fundraising	5.6	0.0	41.7	36.1	16.7
Program evaluation	0.0	2.8	33.3	58.3	5.6
Information Technology	0.0	5.6	19.4	55.6	19.4

	Significant Decline	Some Decline	No Change	Some Increase	Significant Increase
Public and Societal Benefit					
Strategic Planning	3.2%	9.7%	35.5%	32.3%	19.4%
Accounting/Bookkeeping	0.0	6.5	38.7	38.7	16.1
Personnel management	0.0	6.5	38.7	51.6	3.2
Board training	0.0	16.1	38.7	32.3	12.9
Overall financial management	3.2	3.2	25.8	54.8	12.9
Budgeting	3.2	6.5	35.5	45.2	9.7
Fundraising	0.0	16.1	29.0	41.9	12.9
Program evaluation	0.0	3.2	45.2	41.9	9.7
Information Technology	0.0	0.0	32.3	48.4	19.4
Human Services					
Strategic Planning	1.1%	10.6%	35.1%	36.2%	17.0%
Accounting/Bookkeeping	0.0	4.3	40.4	36.2	19.1
Personnel management	3.2	6.3	48.4	35.8	6.3
Board training	2.1	4.2	48.4	35.8	9.5
Overall financial management	1.1	2.1	34.7	43.2	18.9
Budgeting	2.1	2.1	35.8	43.2	16.8
Fundraising	0.0	9.5	29.5	49.5	11.6
Program evaluation	1.1	6.4	36.2	39.4	17.0
Information Technology	1.1	5.4	23.7	47.3	22.6
Education					
Strategic Planning	0.0%	2.7%	40.5%	37.8%	18.9%
Accounting/Bookkeeping	2.6	2.6	56.4	30.8	7.7
Personnel management	0.0	0.0	65.8	26.3	7.9
Board training	0.0	2.8	66.7	25.0	5.6
Overall financial management	2.6	5.3	47.4	34.2	10.5
Budgeting	5.3	2.6	44.7	42.1	5.3
Fundraising	0.0	10.5	36.8	47.4	5.3
Program evaluation	0.0	0.0	54.1	32.4	13.5
Information Technology	0.0	0.0	42.1	31.6	26.3

	All Respondents	Arts,Culture and Humanities	Health Care	Public and Societal Benefit	Human Services	Education
Q54: Which Statement Best Describes your Organization's Future						
Programs will remain unchanged	16.7%	17.1%	8.6%	6.5%	18.7%	27.0%
Will expand services in key areas	59.2	51.2	57.1	67.7	60.4	59.5
Need to reduce key programs	7.1	12.2	5.7	12.9	4.4	2.7
Examine all existing assumptions	17.1	19.5	28.6	12.9	16.5	10.8

Appendix E Survey Data by Size, in Annual Revenue

	All Respondents	Less than $250,000	$250,000 to $499,999	$500,000 to $999,999	$1,000,000 to $4,999,999	More than $5,000,000
Question 1: Age of Organization	n=257	n=63	n=34	n=28	n=53	n=54
	28 years	16 years	25 years	32 years	32 years	38 years
Q2: Staff and Volunteer Full Time Equivalents (FTES)						
Number of staff (FTEs)	15	2	6	9	27	171
Full-time FTEs	9	1	3	8	22	153
Part-time FTEs	6	2	4	4	10	36
Typical number of volunteers used in a month	15	10	13	20	20	43
Typical number of volunteer hours in a month	80	78	50	110	104	200

	FY2001	FY2002	FY2003	FY'01 to FY'02	FY'02 to FY'03
Q3: Financial Profile					
All Respondents					
Income	$1,085,459	$1,074,666	$1,116,90	-1.0%	3.9%
Expense	$1,116,530	$1,175,594	$1,127,906	5.3	-4.1
Surplus/Deficit	$18,294	$2,073	$9,837	-88.7	374.6
Assets	$913,732	$988,784	$1,007,424	8.2	1.9
Liabilities	$180,513	$209,198	$215,159	15.9	2.8
Net Assets	$628,961	$658,831	$695,130	4.7	5.5
Operating Margin	1.9%	.5%	1.6%	-73.7	220
Liabilities as a Percent of Income	.12%	.15%	.13%	25.0	-13.3
Less than $250,000					
Income	$120,037	$116,417	$117,193	-3.0%	0.7%
Expense	$110,701	$114,307	$117,388	3.3	2.7
Surplus/Deficit	$183	$0	$1,225	-100.0	
Assets	$106,765	$94,501	$81,326	-11.5	-13.9
Liabilities	$644	$2,038	$2,000	216.7	-1.9
Net Assets	$67,773	$81,486	$61,673	20.2	-24.3
Operating Margin	2.6%	0.00%	3.0%	-100.0	N/A
Liabilities as a Percent of Income	0%	1.2%	1.0%	N/A	-20

Q3: continued	FY2001	FY2002	FY2003	FY'01 to FY'02	FY'02 to FY'03
$250,000 to $499,999					
Income	$346,242	$326,314	$358,252	-5.8 %	9.8 %
Expense	$333,760	$356,420	$389,365	6.8	9.2
Surplus/Deficit	$10,800	$9,768	$12,490	-9.6	27.9
Assets	$220,628	$227,191	$234,375	3.0	3.2
Liabilities	$8,709	$10,190	$10,000	17.0	-1.9
Net Assets	$224,495	$189,854	$193,123	-15.4	1.7
Operating Margin	4.1%	2.7%	3.0%	-34.1	11
Liabilities as a Percent of Income	2.7%	3.3%	2.7%	22	-18.2
$500,000 to $999,999					
Income	$699,902	$813,866	$762,508	16.3 %	-6.3 %
Expense	$620,238	$657,803	$775,974	6.1	18.0
Surplus/Deficit	$2,405	$-10,080	$-1,461	-519.2	-85.5
Assets	$714,992	$649,466	$518,347	-9.2	-20.2
Liabilities	$63,361	$55,080	$86,290	-13.1	56.7
Net Assets	$347,220	$315,078	$387,092	-9.3	22.9
Operating Margin	0%	1.1%	0%	N/A	-100.0
Liabilities as a Percent of Income	6.2%	8.1%	10.3%	30.6	27.2
$1,000,000 to $4,999,999					
Income	$1,704,422	$1,771,022	$1,840,400	3.9 %	3.9 %
Expense	$1,580,180	$1,722,075	$1,786,669	9.0	3.8
Surplus/Deficit	$33,595	$4,626	$35,958	-86.2	677.3
Assets	$1,670,601	$1,578,073	$1,701,723	-5.5	7.8
Liabilities	$351,156	$322,798	$292,335	-8.1	-9.4
Net Assets	$962,689	$948,697	$949,029	-1.5	0.0
Operating Margin	2.2%	0%	2.2%	-100.0	N/A
Liabilities as a Percent of Income	18%	19%	15.2%	5.6	-20
More than $5,000,000					
Income	$12,725,336	$13,122,559	$13,522,521	3.1 %	3.0 %
Expense	$12,462,545	$13,459,798	$13,170,066	8.0	-2.2
Surplus/Deficit	$276,789	$146,016	$244,209	-47.2	67.2
Assets	$10,099,818	$11,167,635	$9,785,813	10.6-12.4%	
Liabilities	$4,184,226	$4,671,986	$5,188,119	11.7	11.0
Net Assets	$3,857,940	$3,876,771	$4,656,295	0.5	20.1
Operating Margin	1.9%	1.5%	1.6%	-21	6.7
Liabilities as a Percent of Income	33.4%	33.1%	30.1%	0.0	9.1

	1997	2003	2007
Q9: Income Sources 1997, 2003, & Projected 2007, mean			
All Respondents			
Government grants/contracts	38.0%	34.3%	31.9%
Earned income	23.9	20.9	21.2
Individual donations/memberships	13.7	14.0	14.5
Foundation/corporate grants	11.9	10.2	11.3
Fundraisers/events	6.7	9.5	10.1
United Way/federated funds	3.7	1.8	1.9
Other	2.1	9.5	9.0
Total	**100%**	**100%**	**100%**

Q9: continued	1997	2003	2007
Less than $250,000			
Government grants/contracts	24.7 %	15.9%	18.1 %
Earned income	22.5	18.2	16.1
Individual donations/memberships	20.5	24.8	25.0
Foundation/corporate grants	17.6	12.2	11.7
Fundraisers/events	8.9	18.8	18.0
United Way/federated funds	3.3	1.2	1.1
Other	2.5	9.1	9.9
Total	100 %	100%	100 %
$250,000 to $499,999			
Government grants/contracts	31.3 %	23.8%	20.7 %
Earned income	23.2	30.4	32.3
Individual donations/memberships	14.6	9.2	11.0
Foundation/corporate grants	14.4	12.5	14.1
Fundraisers/events	8.2	5.0	6.0
United Way/federated funds	6.4	2.4	2.2
Other	2.0	16.8	13.6
Total	100 %	100%	100 %
$500,000 to $999,999			
Government grants/contracts	37.8 %	27.0%	22.1 %
Earned income	26.4	10.2	10.6
Individual donations/memberships	10.5	16.3	18.7
Foundation/corporate grants	13.4	14.5	16.1
Fundraisers/events	6.6	12.9	13.6
United Way/federated funds	3.7	7.2	7.1
Other	1.6	12.0	12.0
Total	100 %	100%	100 %
$1,000,000 to $4,999,999			
Government grants/contracts	48.2 %	49.9%	46.5 %
Earned income	23.0	23.9	23.8
Individual donations/memberships	10.2	7.5	8.1
Foundation/corporate grants	7.2	9.1	10.9
Fundraisers/events	6.0	4.7	6.0
United Way/federated funds	3.0	1.3	1.4
Other	2.4	3.7	3.3
Total	100 %	100%	100 %
More than $5,000,000			
Government grants/contracts	50.7 %	52.2%	49.0 %
Earned income	27.8	19.2	22.1
Individual donations/memberships	10.4	7.2	8.0
Foundation/corporate grants	5.9	6.9	8.4
Fundraisers/events	1.8	4.0	3.6
United Way/federated funds	2.3	1.0	1.2
Other	1.1	9.5	7.6
Total	100 %	100%	100 %

	All Respondents	Less than $250,000	$250,000 to $499,999	$500,000 to $999,999	$1,000,000 to $4,999,999	More than $5,000,000
Q10: Percent of Operating Budget by Area						
Programs	75.4%	68.6%	75.0%	75.2%	78.7%	82.5%
Fundraising	6.5	8.7	6.1	6.4	4.5	5.2
Administration/Finance	18.1	22.8	18.9	18.5	16.8	12.3
	100.0%	100.0%	100.0%	100.1%	100.0%	100.0%
Q11: Percent of Budget on Salary and Benefits						
Percentage of FY 2003 operating budget from salary and benefits	55.0%	36.0%	51.0%	64.5%	62.0%	62.0%
Q12: Certainty of Total Income						
Confirmed	38.3%	22.9%	42.3%	39.5%	38.3%	53.2%
Expected	44.7	51.9	44.7	47.8	44.6	37.0
Unsure	17.1	25.2	13.1	12.7	17.1	9.8
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Q13: Financial Health of Your Organization						
Financially healthy and not presently vulnerable	33.9%	28.6%	35.3%	32.1%	30.2%	52.8%
Financially healthy to date, but feel vulnerable in the future	46.6	42.9	41.2	53.6	52.8	41.5
Chronic financial problems	18.7	27.0	23.5	14.3	15.1	5.7
Don't know how we will survive	0.1	1.6	0.0	0.0	1.9	0.0
	99.3%	100.0%	100.0%	100.0%	100.0%	100.0%
Q14: Cash Reserve & Size						
Have a cash reserve	64.8%	56.5%	64.7%	71.4%	66.0%	74.1%
Size						
One month or less	19.8%	14.3%	13.0%	26.3%	21.2%	25.0%
Two to three months	40.1	31.4	43.5	47.4	42.4	45.0
Four or more months	40.1	54.3	43.5	26.3	36.4	30.0
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Q15: Endowment and Median Size						
Have an Endowment	30.4%	16.7%	29.4%	29.6%	34.0%	50.9%
Size of Endowment	$750,000	$109,000	$171,500	$1,175,000	$258,000	$2,575,000
Q16: In-house Bookkeeper or Accountant						
In-house bookkeeper/accountant on staff	68.7%	40.0%	52.9%	75.0%	86.5%	98.1%
Q17: In-house Development Director						
Development Director on staff	46.8%	17.7%	29.4%	46.4%	57.7%	87.0%
Q18: Who is Most Responsible for Financial Success or Failure of Your Organization						
Executive Director	62.8%	45.6%	78.1%	75.0%	76.9%	57.4%
Board of Directors	24.8	42.1	12.5	21.4	19.2	14.8
Program Managers	2.9	3.5	3.1	0.0	0.0	5.6
Financial Manager/Accountant	1.7	0.0	0.0	3.6	1.9	3.7
Development Director	0.0	0.0	0.0	0.0	0.0	0.0
Other	7.9	8.8	6.3	0.0	1.9	18.5
Q22: Percent of Nonprofits Reporting Cash Flow Problems by Year						
2003	50.2%	41.0%	41.2%	69.2%	55.8%	48.1%
2002	49.6	47.5	52.9	57.7	49.0	48.1
2001	43.9	39.3	42.4	53.8	46.2	42.3
Q23: Percent of Nonprofits Reporting a Surplus by Year						
2003	54.2%	52.5%	50.0%	46.2%	60.0%	60.4%
2002	50.0	44.1	57.6	42.3	46.0	58.5
2001	48.5	48.3	50.0	44.0	51.0	50.0

	All Respondents	Less than $250,000	$250,000 to $499,999	$500,000 to $999,999	$1,000,000 to $4,999,999	More than $5,000,000
Q24: Percent of Nonprofits Reporting a Deficit by Year						
2003	40.3%	35.7%	48.3%	60.9%	35.4%	33.3%
2002	45.6	42.6	50.0	61.5	46.9	38.5
2001	42.0	35.7	39.3	62.5	37.5	45.1
Q24: Frequency of Deficits						
No reported deficit	35.3%	40.7%	25.8%	18.5%	34.6%	38.5%
Deficit in one year	25.7	22.0	38.7	25.9	36.5	17.3
Deficit in two years	22.8	27.1	19.4	25.9	11.5	34.6
Deficit in three years	16.2	10.2	16.1	29.6	17.3	9.6
Q25: Borrowed Money in the Past 12 Months						
	31.7%	18.0%	17.6%	22.2%	43.1%	54.7%
Q29: Condition of Facility						
Excellent	29.9%	29.1%	23.5%	25.0%	27.5%	37.0%
Good	44.8	43.6	52.9	57.1	47.1	38.9
Acceptable	17.8	20.0	14.7	14.3	11.8	18.5
Barely Acceptable	7.1	7.3	5.9	3.6	13.7	5.6
Unacceptable	0.4	0.0	2.9	0.0	0.0	0.0
Q30: Facilities Reserve						
Maintain a facilities reserve	32.9%	19.7%	30.3%	39.3%	33.3%	50.0%
Q37: Number of Organizations Reporting Use of Specific Technologies						
Local area network	148	17	16	19	41	48
Personal Computers	239	53	34	27	50	54
E-mail	234	52	33	28	50	52
Dial-up internet	76	31	8	4	13	14
Direct internet access	184	24	25	24	49	50
Firewall	189	29	20	25	50	51
Web-site	197	40	24	21	45	51
General productivity software	219	44	31	26	51	53
Fund accounting software	97	7	5	9	31	41
General accounting software	174	44	25	23	40	32
Database of constituents	194	39	26	22	44	49
Q39: Describe Organization's Use of Technology						
Up-to-date technology	30.2%	15.3%	17.6%	39.3%	30.8%	50.0%
Sufficient technology	35.9	32.2	41.2	32.1	42.3	33.3
Do not fully use technology	23.4	27.1	23.5	28.6	25.0	14.8
Out of date	4.0	6.8	5.9	0.0	1.9	1.9
Use IT minimally or not at all	6.5	18.6	11.8	0.0	0.0	0.0
Q40: Person with Primary Responsibility for Technology Support						
Executive Director	13.9%	35.1%	18.8%	15.4%	1.9%	0.0%
Dedicated MIS/technology staff	28.6	5.3	9.4	15.4	34.6	73.6
NonMIS/technology Staff	26.5	12.3	34.4	30.8	44.2	17.0
Volunteer	10.5	26.3	9.4	11.5	3.8	0.0
Contract/Consultant	10.5	5.3	9.4	19.2	11.5	7.5
No Specific Person	10.1	15.8	18.8	7.7	3.8	1.9
Q43: Tenure of Executive Director						
	6 years	6 years	5 years	5 years	9 years	7 years
Q44: Percent of Nonprofits Reporting Retirement of Executive Director within 5 Years						
	26.5%	31.6%	16.2%	25.8%	34.4%	8.8%

	All Respondents	Less than $250,000	$250,000 to $499,999	$500,000 to $999,999	$1,000,000 to $4,999,999	More than $5,000,000
Q46: Does Your Organization Have the Right Board for the Future						
Agree	66.8%	69.1%	64.5%	57.1%	62.0%	81.1%
Disagree	33.2	30.9	35.5	42.9	38.0	18.9

	Significant Negative Impact	Some Negative Impact	No Impact	Some Positive Impact	Major Positive Impact
Q49: Effects of Environmental Changes on Nonprofits					
All Respondents					
Economic downturn/recession	27.6%	56.4%	13.6%	1.6%	0.8%
Widespread layoffs	11.1	34.4	52.5	1.6	0.4
Restructuring of public sector support	10.0	41.0	45.6	2.9	0.4
Reduction in federal funds	14.9	32.4	51.9	0.4	0.4
Reduction in individual contributions	17.4	44.6	35.1	2.9	0.0
Decline in endowments	5.9	16.0	77.2	0.8	0.0
Complete cuts or elimination of programs	9.7	28.2	59.2	2.9	0.0
Mergers	1.3	5.5	90.7	1.7	0.8
Internal restructuring designed to reduce costs	3.8	18.1	54.9	18.1	5.1
Less than $250,000					
Economic downturn/recession	25.0%	51.7%	20.0%	3.3%	0.0%
Widespread layoffs	11.7	33.3	53.3	1.7	0.0
Restructuring of public sector support	8.6	27.6	60.3	3.4	0.0
Reduction in federal funds	13.8	31.0	55.2	0.0	0.0
Reduction in individual contributions	21.3	50.8	24.6	3.3	0.0
Decline in endowments	5.2	13.8	81.0	0.0	0.0
Complete cuts or elimination of programs	10.2	18.6	67.8	3.4	0.0
Mergers	1.7	3.4	94.9	0.0	0.0
Internal restructuring designed to reduce costs	5.1	5.1	74.6	15.3	0.0
$250,000 to $499,999					
Economic downturn/recession	14.7%	61.8%	17.6%	2.9%	2.9%
Widespread layoffs	8.8	38.2	44.1	5.9	2.9
Restructuring of public sector support	9.1	48.5	33.3	9.1	0.0
Reduction in federal funds	11.8	29.4	58.8	0.0	0.0
Reduction in individual contributions	17.6	44.1	35.3	2.9	0.0
Decline in endowments	6.1	9.1	84.8	0.0	0.0
Complete cuts or elimination of programs	9.4	21.9	68.8	0.0	0.0
Mergers	3.0	6.1	90.9	0.0	0.0
Internal restructuring designed to reduce costs	0.0	24.2	66.7	6.1	3.0
$500,000 to $999,999					
Economic downturn/recession	28.6%	53.6%	17.9%	0.0%	0.0%
Widespread layoffs	10.7	35.7	53.6	0.0	0.0
Restructuring of public sector support	14.3	28.6	53.6	3.6	0.0
Reduction in federal funds	7.1	25.0	67.9	0.0	0.0
Reduction in individual contributions	3.7	40.7	51.9	3.7	0.0
Decline in endowments	3.7	14.8	77.8	3.7	0.0
Complete cuts or elimination of programs	11.1	22.2	66.7	0.0	0.0
Mergers	3.7	3.7	92.6	0.0	0.0
Internal restructuring designed to reduce costs	7.1	25.0	57.1	7.1	3.6

Q49: continued	Significant Negative Impact	Some Negative Impact	No Impact	Some Positive Impact	Major Positive Impact
$1,000,000 to $4,999,999					
Economic downturn/recession	32.7%	57.7%	9.6%	0.0%	0.0%
Widespread layoffs	9.6	40.4	50.0	0.0	0.0
Restructuring of public sector support	13.5	57.7	28.8	0.0	0.0
Reduction in federal funds	21.2	34.6	44.2	0.0	0.0
Reduction in individual contributions	17.3	38.5	42.3	1.9	0.0
Decline in endowments	5.9	13.7	78.4	2.0	0.0
Complete cuts or elimination of programs	7.7	32.7	57.7	1.9	0.0
Mergers	0.0	7.8	90.2	0.0	2.0
Internal restructuring designed to reduce costs	3.9	21.6	45.1	23.5	5.9
More than $5,000,000					
Economic downturn/recession	33.3%	58.8%	7.8%	0.0%	0.0%
Widespread layoffs	11.8	27.5	58.8	2.0	0.0
Restructuring of public sector support	5.9	45.1	47.1	2.0	0.0
Reduction in federal funds	15.4	44.2	40.4	0.0	0.0
Reduction in individual contributions	11.5	46.2	38.5	3.8	0.0
Decline in endowments	9.6	26.9	63.5	0.0	0.0
Complete cuts or elimination of programs	7.7	46.2	40.4	5.8	0.0
Mergers	0.0	7.8	82.4	7.8	2.0
Internal restructuring designed to reduce costs	1.9	21.2	34.6	30.8	11.5

	Significant Decline	Some Decline	No Change	Some Increase	Significant Increase
Q50: Changes in Organizational Capacity During Past 3 Years					
All Respondents					
Strategic Planning	1.2%	9.1%	34.2%	36.2%	19.3%
Accounting/Bookkeeping	0.4	3.7	42.7	35.4	17.9
Personnel management	2.0	4.5	49.2	35.8	8.5
Board training	0.8	6.2	50.2	34.2	8.6
Overall financial management	1.6	3.7	35.9	40.8	18.0
Budgeting	2.4	3.3	36.6	43.1	14.6
Fundraising	2.0	8.9	29.3	45.5	14.2
Program evaluation	0.4	4.5	38.9	43.4	12.7
Information Technology	0.8	4.1	27.5	48.4	19.3
Less than $250,000					
Strategic Planning	0.0%	6.7%	38.3%	35.0%	20.0%
Accounting/Bookkeeping	0.0	1.6	57.4	23.0	18.0
Personnel management	0.0	4.9	62.3	23.0	9.8
Board training	0.0	6.9	56.9	25.9	10.3
Overall financial management	1.7	1.7	46.7	36.7	13.3
Budgeting	4.9	4.9	42.6	34.4	13.1
Fundraising	3.3	9.8	27.9	47.5	11.5
Program evaluation	0.0	6.6	45.9	34.4	13.1
Information Technology	0.0	3.3	51.7	36.7	8.3

	Significant Decline	Some Decline	No Change	Some Increase	Significant Increase
Q50: continued					
$250,000 to $499,999					
Strategic Planning	0.0%	3.1%	43.8%	34.4%	18.8%
Accounting/Bookkeeping	2.9	0.0	41.2	41.2	14.7
Personnel management	0.0	0.0	45.5	45.5	9.1
Board training	0.0	6.1	42.4	48.5	3.0
Overall financial management	3.0	3.0	21.2	48.5	24.2
Budgeting	3.0	3.0	27.3	51.5	15.2
Fundraising	3.0	0.0	30.3	51.5	15.2
Program evaluation	0.0	3.0	51.5	42.4	3.0
Information Technology	0.0	6.3	25.0	56.3	12.5
$500,000 to $999,999					
Strategic Planning	3.6%	14.3%	28.6%	35.7%	17.9%
Accounting/Bookkeeping	0.0	7.1	46.4	39.3	7.1
Personnel management	7.1	7.1	57.1	28.6	0.0
Board training	7.1	3.6	67.9	10.7	10.7
Overall financial management	3.6	7.1	32.1	50.0	7.1
Budgeting	3.6	3.6	35.7	50.0	7.1
Fundraising	0.0	7.1	35.7	35.7	21.4
Program evaluation	3.6	0.0	25.0	53.6	17.9
Information Technology	3.6	0.0	14.3	50.0	32.1
$1,000,000 to $4,999,999					
Strategic Planning	3.8%	15.4%	26.9%	36.5%	17.3%
Accounting/Bookkeeping	0.0	3.8	38.5	34.6	23.1
Personnel management	0.0	3.8	44.2	40.4	11.5
Board training	0.0	11.5	50.0	34.6	3.8
Overall financial management	1.9	3.8	38.5	36.5	19.2
Budgeting	1.9	1.9	38.5	42.3	15.4
Fundraising	1.9	13.5	28.8	48.1	7.7
Program evaluation	0.0	5.8	40.4	40.4	13.5
Information Technology	1.9	3.8	21.2	51.9	21.2
More than $5,000,000					
Strategic Planning	0.0%	9.8%	29.4%	37.3%	23.5%
Accounting/Bookkeeping	0.0	5.8	34.6	38.5	21.2
Personnel management	1.9	7.7	34.6	48.1	7.7
Board training	0.0	3.8	40.4	46.2	9.6
Overall financial management	0.0	1.9	32.7	36.5	28.8
Budgeting	0.0	1.9	30.8	46.2	21.2
Fundraising	0.0	9.6	23.1	48.1	19.2
Program evaluation	0.0	3.9	27.5	54.9	13.7
Information Technology	0.0	7.7	11.5	53.8	26.9

	All Respondents	Less than $250,000	$250,000 to $499,999	$500,000 to $999,999	$1,000,000 to $4,999,999	More than $5,000,000
Q54: Which Statement Best Describes Your Organization's Future						
Programs will remain unchanged	16.7%	28.3%	22.6%	7.7%	13.7%	7.7%
Will expand services in key areas	59.2	43.3	61.3	65.4	56.9	75.0
Need to reduce key programs	7.1	6.7	6.5	3.8	11.8	5.8
Examine all existing assumptions	17.1	21.7	9.7	23.1	17.6	11.5

Illinois Facilities Fund
One North LaSalle Street
Suite 700
Chicago, Illinois 60602
Telephone 312 629 0060
Fax 312 629 0061
iff.org

Donors Forum of Chicago
208 South LaSalle Street
Suite 740
Chicago, Illinois 60604
Telephone 312 578 0090
Fax 312 578 0103
donorsforum.org