The 2015 Not-for-Profit Outlook Survey

Road to Recovery: Are We There Yet?

Clark Nuber PS
About Clark Nuber

We are an award-winning CPA and consulting firm that works with foundations, not-for-profit and public sector organizations, privately held and family businesses, angel and venture-backed companies, public companies, and high net worth individuals and their families. We have nearly 200 people with the expertise to provide our clients with a wide variety of services, including financial statement audits; federal, state, and international tax planning and compliance; CFO/Controller/accounting services; forensic accounting and internal control reviews; consulting and testing computerized systems, and specialty audits including employee benefit plans and government grants.

About Our Not-for-Profit Practice

We have a dedicated Not-for-Profit Services Group of more than 60 people who specialize in providing audit, tax, and consulting services to more than 750 organizations. This team gives us the bench strength and scope that provides expertise in complex technical issues and the ability to grow with organizations. We are members of the Washington Society of CPAs’ Not-for-Profit Committee and several of our shareholders and principals have served as chair of the committee. We also regularly provide internal, local and national training seminars on not-for-profit tax, accounting and auditing issues.

Our Commitment to the Community

Serving the community in which we live and work is integral to our culture at Clark Nuber. Our employees are involved in nearly 70 charitable and community organizations, including serving on over 50 boards. Clark Nuber, as a firm, made direct monetary contributions to over 100 different organizations in 2014.
Welcome to our second annual Not-for-Profit Outlook Survey. We are excited about this survey as it builds on the results from last year’s survey and gives us the ability to compare your expectations for 2014 with your actual results.

We received a lot of good feedback from last year’s survey and modified the survey based on that feedback. Our goal is to make this survey as meaningful as possible for you so any feedback on how to improve the survey and make the results more relevant would be appreciated.

With any survey, the quality of the information is a function of cooperation, contributions, and insight from a number of individuals. The data presented in this report is based on 61 responses from a variety of nonprofit sectors throughout the Northwest. Thank you all for your time in responding to our questions, for without you we’d have little to graph or analyze. We also thank you for sharing best practices, which you will see throughout the report in call-out boxes. Lastly, thanks to our friends and Leading Edge colleagues at EKS&H in Denver for all your invaluable assistance with this survey.

On behalf of the Clark Nuber Not-For-Profit Team, we are pleased to present the 2015 Not-for-Profit Outlook Survey. It is our hope that nonprofit leaders, funders, academics, media, and the general public throughout the Northwest will find the information in this report to be of value in their stewardship efforts over the not-for-profit sector.
About the Survey

The survey asked not-for-profit leaders to consider both actual results and future expectations about the economy, their industry, and their organizations. Furthermore, participants were asked about trends and strategies, as well as goals and challenges for 2015.

Results for the 2015 Not-for-Profit Outlook Survey represent the opinions of over 60 not-for-profit leaders. This report includes an analysis of results we consider to be the most informative, actionable, and insightful. (Please note that all percentages may not total 100% due to rounding.)
Net results from operations were better in 2014 than 2013, but expectations are moderating for 2015.

Increases in healthcare costs are not expected to be as high as they were in 2014.

The vast majority of not-for-profits make retirement plan contributions for their employees.

Most organizations do not have a succession plan in place for key executives.

The use of social engagement strategies is increasing.

Capital campaigns are on the rise.
Did your total revenue and support exceed total expenses in 2013?

Regarding revenue and support exceeding expenses, the positive trend that we saw from last year’s survey ticked upward for this year. In last year’s survey, 64% of respondents saw revenue and support exceeding total expenses. This year, the percentage jumped to 72%. The uptick may be tied to the Pacific Northwest’s economic health, which continues to improve. According to a recent Washington State Economic and Revenue Forecast Council report, the state added 13,000 more jobs than expected, state exports reached an all-time high, and state consumer inflation remained relatively tame due to lower energy costs.

Did your total revenue and support exceed total expenses in 2014?

We also asked about expectations of revenue and support exceeding expenses for the current year. Last year, 72% anticipated revenue and support to exceed expenses last year. This year, the optimism remains, though slightly tempered.

When asked last year what they anticipate to cause an expected decrease in revenue in 2014, many predicted loss of program income, a decrease in investment performance, a reduction in contributions from existing donors, or large items in the prior year that are not expected to recur in 2014. For 2015, expected decreases are anticipated to be due to a possible decline in the economy, reduced or discontinued grant funding, and impact of market fluctuations on investment earnings.
It’s also interesting that, for the 2013 survey, 72% of respondents expected a positive bottom line and this year, 72% are reporting a positive bottom line for 2014. Respondents last year planned to increase revenue and support by growing or expanding programs; increasing fees, dues or tuition; and expanding geographic regions for fundraising. This year, plans are similar and primarily fall into expanding/adding locations, events, programs, sponsorships, and services; or increasing fundraising efforts through alumni outreach or innovative giving options such as credit card based giving campaigns with no end date.

### Expected Deficits

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Reserves</td>
<td>71%</td>
</tr>
<tr>
<td>Other</td>
<td>23%</td>
</tr>
<tr>
<td>Distributions from Endowed Funds</td>
<td>9%</td>
</tr>
<tr>
<td>Investments</td>
<td>5%</td>
</tr>
<tr>
<td>Loans</td>
<td>0%</td>
</tr>
</tbody>
</table>

Which of the following will be used to satisfy the expected deficit in 2014?

Continuing the trend from last year, the use of cash reserves is the overwhelming choice to satisfy any expected deficits, although this year investments and loan/line of credit are also expected to be tapped to a slightly greater degree. Those in the “Other” category indicated that their losses were a result of noncash items such as depreciation so reserves would not be impacted, or they would accelerate contributed gifts.

### Economic Expectations

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is your overall economic outlook for 2014?</td>
<td>What is your overall economic outlook for 2015?</td>
</tr>
<tr>
<td>Positive</td>
<td>83%</td>
</tr>
<tr>
<td>Negative</td>
<td>9%</td>
</tr>
<tr>
<td>Unknown</td>
<td>9%</td>
</tr>
</tbody>
</table>

Like last year, the vast majority of respondents are upbeat about their overall economic outlook, albeit by a slightly lower percentage (83% in 2014 vs. this year’s 76%). Although the percentage of those with a positive outlook is high, the slight downturn from last year may be reflective of lingering uncertainty over how long the nation’s and state’s economic recovery will last.
What percentage of your total revenue and support came from each source in 2013?

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Revenue</td>
<td>41%</td>
</tr>
<tr>
<td>Contributions</td>
<td>21%</td>
</tr>
<tr>
<td>Government Grants</td>
<td>15%</td>
</tr>
<tr>
<td>Investment Income</td>
<td>10%</td>
</tr>
<tr>
<td>Private Grants</td>
<td>7%</td>
</tr>
<tr>
<td>Special Events</td>
<td>7%</td>
</tr>
</tbody>
</table>

As reported in last year’s survey, respondents saw that revenue and support mostly came in the form of program revenue or contributions, which is the norm in the not-for-profit world. A low percentage (15%) came from government grants, which at that time was expected, given that competition for this area had intensified significantly since the recession and there are often strict reporting requirements.

What percentage of your total revenue and support came from each source in 2014?

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Revenue</td>
<td>33%</td>
</tr>
<tr>
<td>Contributions</td>
<td>22%</td>
</tr>
<tr>
<td>Government Grants</td>
<td>20%</td>
</tr>
<tr>
<td>Investment Income</td>
<td>12%</td>
</tr>
<tr>
<td>Private Grants</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
<tr>
<td>Special Events</td>
<td>2%</td>
</tr>
</tbody>
</table>

In this year’s survey, program revenue and contributions remain the top form of support. However, this year there is an upward trend of support from government grants (15% last year, 20% this year). Special events trended downward (7% to 2%), which is not unexpected given that special events typically do not yield big gains for the effort. According to Hank Rosso’s *Achieving Excellence in Fundraising*, special events rank seventh among eleven fundraising activities on the “Ladder of Fundraising Effectiveness.”

Shared Learnings: Improving Operating Efficiencies

“We reorganized and merged with another organization for efficiency and clarity.”
Sources of Revenue and Support - Expectations

As seen in last year’s survey, program revenue and contributions remain the key expected avenues of funding for local not-for-profit organizations. This closely mirrors last year’s expectations and actual results for 2014, though with a slight difference in percentage mix.

However, unlike last year, expectations are high regarding government grant funding, which this year landed in a tie with contributions. There might be an expectation of more federal grants coming through due to the uptick in the economy. And, reliance on special events as an expected source of revenue/support has dwindled even further (7% last year to a minuscule 2% this year). It may be that development directors are sensing a weariness on the part of donors with the idea of “another” special event, and there are plans for new ways of bringing in dollars and donors.

Shared Learnings: Expand to Attract

“Launching geographic expansion has attracted new donors and investors.”
Performance Across Five Categories - Actual

As seen from last year, when comparing current year with previous year in five major categories, revenue and expenses saw more increases than decreases. Employment and demand for services remain steady.

In the current year survey we asked a new question as to how net income from operations compared to the previous year. This showed a surprising contrast on the extreme ends of the graph with net income increasing more than 10% for a whopping 39% of respondents. At the opposite extreme however, 29% reported a decline of more than 10%. That means that nearly 70% experienced large fluctuations in their bottom line results this past year. It will be interesting to see how this changes in the future when economic expectations are not quite as rosy.
Performance Across Five Categories - Expectations

Last year, participants expected that revenue and expenses would generally increase rather than decrease. Employment was forecast to remain steady along with staffing and volunteer hours. This year, expectations are the same that revenue and expenses will generally increase; however, expectations are not as high that employment will remain steady and might even increase. It is interesting to note, regarding 2014 vs. 2013 expectations for demand for services, that forecasts were slightly off against actuals. Demand for services increased by a total of 44% vs. the expected 54%. Also, employment actually increased by 40% vs. the expected 27%.
Compensation and Benefits

In a carryover from last year’s survey, many of our respondents anticipate increases in healthcare and total wages, which again reflects the nation’s concerns in general. A January 2015 Gallup Poll shows healthcare costs and lack of money/low wages rank as the most important financial problems facing American families.

For those respondents based in Seattle, the multi-tier phase-in period for the $15/hour minimum wage legislation began in April 2015, which might account for many anticipating a 2%-4% increase in total wages. There are different phase-in schedules for companies and organizations based on size, and whether or not healthcare benefits are also offered. Clark Nuber Principal Candi Avery wrote an article explaining the minimum wage phase-in (the article can be found at http://bit.ly/minwage_CN.)

As of May 2015, the $15/hour wage increase affects Seattle only. However, there is a movement for similar wage increases regionally and nationally. The “Fight for 15” campaign is a national movement spearheaded by the Service Employees International Union, which plans on coordinating demonstrations in more than 230 U.S. cities and college campuses, as well as dozens of cities overseas. Also, 20 states increased their minimum wage on January 1, 2015, and President Obama has issued a call to action to raise the federal minimum wage to $10.10/hour.

Expected increases in healthcare benefit costs are moderating now that CFOs have a better idea of how the Affordable Care Act will impact them.
What is the average percentage of employees' salaries your organization contributes to retirement plans?

This year, we asked about employee benefit plans. The majority of respondents are giving some kind of contributions to the plan, which is encouraging.

When asked about the type of contribution match, responses varied greatly, from 100% of the first 6% of compensation to 5% after 2 years of service. Others mentioned a flexible Safe Harbor match, 4% if employees contributed at least 1%, and 3% contribution match.
Bonuses and Incentives

As in last year’s survey, the majority of respondents will not be offering bonuses or incentive compensation. The offering of bonuses and/or incentive compensation to retain talent is not common practice in the nonprofit world, so it is not unexpected for this trend to continue.

Labor Supply Challenges

However, though the majority of respondents do not plan to offer bonuses/incentives to retain talent, many also expect that retaining top talent will be a challenge (evenly split between being a major challenge or a minor challenge).
Another new question this year centers around succession planning. Many respondents indicate they do not have a formal succession plan for key, executive-level positions. From various surveys and studies done recently we know that a large number of executive directors and other senior leaders are planning to retire in the next five years. Without a succession plan in place, this could result in a fair bit of turmoil and lost momentum. A succession plan does not necessarily name the successor, but it does outline the process that the organization will follow when a change happens, and who will take responsibility for the search and management of the process. It’s an important piece of the strategic plan that a majority of respondents have not yet addressed.

**Reporting**

**Impact and Outcomes**

With identical results from last year, the majority of respondents are measuring impact and outcomes. From the website Strengthening Nonprofits: A Capacity Builder’s Resource Library, a handbook on measuring outcomes states, “Outcome measurement has become one of the most important activities that social service organizations undertake,” particularly for those organizations receiving federal and private grants where organizations are asked to be accountable for the use of the grant maker’s funds. Moreover, when an organization measures outcomes, they are able to improve practices and programs and identify potential problems early.

The vehicles for these measurements include surveys, community outreach, program evaluations, tracking progress on annual work plans through staff meetings and board reports, and qualitative feedback (storytelling). In general, the data obtained from the measurements are used for (1) funder and/or partner reports, (2) board presentations to assist in decision-making, (3) future grant considerations.
Board Reporting

Like last year, respondents are sharing a wealth of information with their boards and finance/audit committees.

Financial statements and budget information are routinely shared, and program outcomes and key performance indicators (KPIs) and/or dashboards also are being provided. KPIs offer an immediate snapshot of the organization’s overall performance and health.

![Diagram showing the percentage of information provided by management to the board and finance/audit committees in 2014 and 2015.]
Cash Reserves

Similar to last year, many organizations had a decent cushion in their cash reserves. This is good news and a best practice: An Urban Institute study states that organizations should have a 3-month minimum in their cash reserves. The reserve needs may be much greater than this depending on factors such as the volatility of cash flows throughout the year or the reliance on reimbursable grants.

The cash reserve policies take different forms. A few examples are:

- An operating reserve that covers one month of expenses and a board quasi-endowment that is invested in liquid long term investments, but could be used at board discretion.

- Shortages picked up by a line of credit and repaid within 30 days.

- Holding two to three months of cash reserved for operations and making distributions from non-endowment investment accounts when needed.

Use of Technology

How would you describe the following technology strategies or issues for your organization for 2015?

Data security seems to be in the news every other week, and many respondents have either already addressed issues or have it as a consideration or priority. Other areas of consideration or priority include tracking/analyzing donor relations, tracking impact and outcomes, improving existing system performance and social media. These areas correlate with results from survey questions regarding reporting and giving strategies.

Shared Learnings: Recruiting/Retaining Talent

“We worked on increasing employee salaries to be more competitive within labor markets for recruitment and retention purposes.”
Facebook, The Seattle Foundation’s GiveBIG fund drive and Twitter are the respondents’ most popular choices for social engagement. The average percentage annual growth from these social giving strategies is 3.5%.

It’s key to remember, though, that it is the personal connection one has with an organization that drives giving, not the social engagement medium. A recent study by the Red Cross found only 3% of respondents thought social media was the most effective way to solicit donations, though the number jumped to 19% when asked if they would likely donate money to a charity if they saw a friend post about a recent donation. That same study found 42% of social users indicated they are more likely to give via an offline option (such as putting money in a store countertop canister, giving to someone in a public place, or mailing a check).
Generally, respondents are either currently conducting a capital campaign or plan to next year. Though capital campaigns are time and resource intensive, this trend is a turnaround from last year’s survey where generally respondents were not planning capital campaigns. With the economic turnaround and investment portfolio growth starting to feel more secure, it is becoming more feasible to consider asking donors for major gifts again.

Of those who are currently conducting a campaign or planning a campaign, the majority will include endowment-focused giving.
Goals/Issues/Challenges

Obtaining both new funding and more funding from current sources are top of mind for our respondents, followed by meeting the annual budget, improving effectiveness of fundraising efforts and activities, and collaborating with other organizations/entities.

Other goals of importance to organizations in 2015 include starting new or expanding current programs, improving program reporting efficiency and accuracy, and retaining qualified staff.

Though the responses are similar to last year’s survey, the priority order has shifted a little with funding priorities becoming more prominent. Last year, the top five goals were:

1. Meet annual budget
2. Obtain new funding sources
3. Obtain more funding from current sources
4. Start new or expand current programs
5. Improve effectiveness of fundraising efforts and activities

Shared Learnings: How to expand streams of revenue

“We developed sponsorships, began fee-based education programs, and implemented a membership program.”
In correlation to obtaining funding being a top goal, the challenge in predicting future funding is a top concern, as it was in last year’s survey. Increased compliance and regulation and seeing a decrease in government funding make it near the top of the list.

Again, there was a slight shift from last year’s survey. The top five issues/challenges last year were:

1. Challenge in predicting future funding
2. Obstacles to new program implementation
3. Inefficient, insufficient or outdated technology
4. Potential loss of top management/talent
5. Increased compliance and regulation.

Shared Learnings: Change for the better

“We increased development capacity, focused on messaging, found new strategic and funding partners and have new leadership.”
### About the Respondents

#### Type

- **Life Sciences**: 2%
- **Foundations**: 5%
- **Life Sciences**: 5%
- **Religious**: 5%
- **Healthcare**: 8%
- **Other**: 10%
- **Arts, Culture & Humanities**: 17%
- **Education**: 19%
- **Social Services**: 29%

*Other includes categories such as workforce development, government, and training.*

#### Size

- **<10**: 15%
- **10 - 49**: 31%
- **50 - 99**: 8%
- **100 - 249**: 20%
- **250 - 500**: 17%
- **>500**: 8%

#### Revenue/Support

- **<$1 million**: 3%
- **$1 - $5 million**: 29%
- **$6 - $10 million**: 20%
- **$11 - $25 million**: 20%
- **$26 - $50 million**: 15%
- **>$50 million**: 12%

#### How many employees did you have at the end of your last fiscal year?

- **<10**: 15%
- **10 - 49**: 31%
- **50 - 99**: 8%
- **100 - 249**: 20%
- **250 - 500**: 17%
- **>500**: 8%

#### What was your total revenue and support for your last fiscal year?

- **<$1 million**: 3%
- **$1 - $5 million**: 29%
- **$6 - $10 million**: 20%
- **$11 - $25 million**: 20%
- **$26 - $50 million**: 15%
- **>$50 million**: 12%
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