INSIDE THE Mid-South NONPROFIT Sector

THE UNIVERSITY OF MEMPHIS®
Institute for Philanthropy and Nonprofit Leadership

Alliance
FOR NONPROFIT EXCELLENCE
Effective Leadership = Stronger Communities
EXECUTIVE SUMMARY

The Inside the Mid-South Nonprofit Sector study was conducted by the Alliance for Nonprofit Excellence in partnership with the University of Memphis Institute for Philanthropy and Nonprofit Leadership. This report provides a look at the role of nonprofit organizations in the Mid-South economy and the impact of economic conditions on our community's nonprofit sector. One hundred and seventy-two organizations across the Mid-South participated in this year’s survey. Additional data was collected from IRS records and the National Center for Charitable Statistics. Unless otherwise noted, the Mid-South includes a 38-county area in Western Tennessee, Northern Mississippi, and Eastern Arkansas.

A Snapshot of Mid-South Nonprofits

- There are 5,196 nonprofits (outside of churches) in the Mid-South with combined assets of nearly $14 billion; this includes 267 private foundations with assets of $1.2 billion.
- Nonprofits in the five-county Memphis metropolitan statistical area employ more than 43,000 people, with a payroll of nearly $1.7 billion.
- There are 3,882 nonprofits in West Tennessee, 712 in East Arkansas, and 602 in North Mississippi.
- More than 1,000 nonprofits are located in Shelby County, the region’s most populated metropolitan area.
- The average nonprofit salary in the Memphis MSA is roughly $19.36 per hour, only slightly less than the average of $19.56 across all sectors in the MSA.
- 259,200 volunteers provide 29 million hours of service to Memphis nonprofits each year, at a value of $620 million.

Key Findings

Key findings from this year’s survey include:

Service Demands

- 75% of respondents experienced increased demands for their services in FY 2013.
- 58% were able to meet increased demands for their services this year.

Financial Health

- 48% had an operating surplus in FY 2013, up from 35% last year, though only 32% of the small organizations reported a surplus.
- 23% of all respondents and 32% of small organizations have between zero and one month of cash reserves on hand.
- 28% had to dip into their reserves this year, down slightly from FY 2012.
- 71% of all respondents and 91% of large organizations reported an increase in net assets between FY 2012 and 2013.
- Nearly 75% say their cost of doing business increased in FY 2013, up from 63% last year.
- 43% say their clients’ changing socioeconomic conditions contributed to a more financially challenging operating environment in FY 2013.
57% say they felt financially stable during FY 2013, while 30% say they have not felt financially stable since before FY 2010.

68% say their Boards provide highly effective financial oversight.

**Funding**

- 53% of respondents get more than half their funding from local/regional sources.
- Only nine percent get more than half their funding from national sources.
- Tennessee, Arkansas, and Mississippi combined received less than four percent of the $21.2 billion in grant dollars awarded by the top 1,000 largest foundations in the country in 2011.
- Half of respondents say fundraising results increased in FY 2013 and 32% say results were the same as in FY 2012.
- 31% reported losing a long-time funding source in FY 2013.
- 71% reported receiving less funding than in the past from an established/expected source in FY 2013.
- 62% of respondents whose funding increased in FY 2013 said individuals gave more and 43% said gifts from individuals were bigger in FY 2013.
- 23% of respondents report that more than half their funding is restricted, and 16% say that between 20% and 50% of their funding is restricted.
- Cuts to government funding continue to be a problem for many nonprofits.
- Only half of respondents that receive government funding say payments are timely. Those that receive late payments report using reserves and their credit lines and delaying vendor payments to cover the gaps.
- 20% of respondents generate at least half their revenues from earned income and nearly 19% generate between 20% and 50% from earned income.

**Strategies for Success**

- The top administrative actions that respondents say improved their financial health in FY 2013 include: hiring employees and retaining employees, giving raises, marketing and communications, and investing in technology.
- The top program-related actions taken in FY 2013 include: expanding programs and services, adding new programs and services, and increasing the number of people served.
- The top financial management actions taken in FY 2013 include: cutting overhead, building reserve funds, and conducting scenario/contingency planning.
- The most effective actions taken to improve mission impact include: strategic development, staff reorganization, consulting, service delivery analysis, creating earned income streams, fundraising, hiring development directors, and strengthening Board function.
- Top policy advocacy strategies include: meeting with public officials, participation in an association that advocates, and serving on committees/task forces.
INTRODUCTION

From 2009 to 2012, the Alliance for Nonprofit Excellence published Downstream and In Demand, an annual series of reports on how Mid-South nonprofits have been affected by the global recession that began in 2007. This year, we’ve expanded the report and renamed it Inside the Mid-South Nonprofit Sector. The expansion represents the beginning of a long-term effort to characterize not only how economic conditions are impacting local nonprofits, but also how nonprofits are contributing to the local economy.

Although nonprofits have always operated in a challenging environment, the recession threw the sector into crisis. All types of funding—foundation, individual, government, corporate—plummeted along with the market. Demands for health, social services, and housing assistance soared due to unemployment, cuts to benefits, lost savings, and foreclosures. Publicly provided services declined as state and Federal budget crises took hold, and nonprofits scrambled to pick up the slack.

In Downstream and In Demand, we tracked these trends at the local level, describing what kinds of problems Mid-South nonprofits have faced and the strategies they’re using to weather the storm. These studies have been widely used by nonprofit leaders to benchmark their own organizational health, by the media in reporting on community problems and issues, and by funders, public officials, and service providers who want to better understand how to support nonprofits.

Though the U.S. economy is thought to be recovering, experts say it will be at least a decade until nonprofit funding returns to pre-recession levels. In the meantime, many nonprofits have found ways to stabilize and even grow their mission impact and improve their financial health. Yet poverty and its attendant problems are persistent, demands for nonprofit services are not decreasing, and resources remain scarce. This report provides an updated snapshot of how Mid-South nonprofits are faring in this still-difficult environment. We also worked with the University of Memphis Institute for Philanthropy and Nonprofit Leadership to collect and share key data about the size and scope of the sector and its role in the Mid-South economy.

One hundred seventy-two organizations participated in the Inside the Mid-South Nonprofit Sector survey, conducted in the summer of 2013. Surveys were sent to 1,578 nonprofits in our 38-county geographic region (both members and non-members of the Alliance). The survey included 46 closed- and open-ended questions. The Appendix provides a descriptive overview of survey respondents’ organizations. Additional research relied on numerous data sources, including IRS records and the National Center for Charitable Statistics. Where possible, data was used for the entire 38-county geographic region, but, as noted, some data refers only to the Memphis Metropolitan Statistical Area (MSA) or to specific counties. We refer to organizations with annual budgets under $1 million as small, $1 - $10 million as medium, and over $10 million as large.

PART I: OVERVIEW

- The Mid-South (defined here as 38 counties in West Tennessee, North Mississippi, and East Arkansas listed in the Appendix) nonprofit sector is home to at least 5,196 registered 501(c)(3) nonprofits, including 267 private foundations.
- Of these, 1,737 are public charities that file the form 990 with the IRS.
- More than 1,000 nonprofits are in Shelby County, the region’s most populated metropolitan area, and 3,882 are in west Tennessee, the largest geographic region represented in our study.
**Fields of Work**
- 29% of registered Mid-South nonprofits are religious organizations.
- 27% are registered as human services organizations.
- 13% are registered as educational organizations.
- 11% are registered as public benefit organizations.

**Assets**
- Assets of Mid-South nonprofits total almost $14 billion.
- Health care organizations, including hospitals, have the largest combined assets of more than $9 billion.
- Education and public benefit organizations have the next largest combined assets of more than $2 billion and more than $1 billion respectively.
- In Shelby County, 30 nonprofits have more than $50 million in assets, including major hospitals, colleges and universities, some private K-12 schools, and other organizations.

**Employment and Salary**
Nonprofit organizations in the Memphis metropolitan statistical area employ 43,583 people, with an annual payroll of nearly $1.7 billion. This represents roughly 7.9% of the total of 550,000 people employed in the MSA. This figure is somewhat less than the national figure of 9.2% but slightly higher than the average of 7.7% in the entire East South Central region of the U.S. Nonprofit organizations in the Jackson, Tennessee metropolitan area employ 6,518 people with an annual payroll of nearly $108 million.

On an hourly basis, the average nonprofit salary in the Memphis MSA is roughly $19.36 per hour, only slightly less than the average of $19.56 across all sectors in the MSA. Although nonprofit salaries are frequently perceived to be lower than their for-profit counterparts, research shows that within individual sectors, nonprofit salaries are on par with or higher than for-profit salaries, including those of hospitals, education, and social services. Nonprofit jobs do not, on average, pay less than their for-profit counterparts. The impression that nonprofit jobs are lower paying is related to the higher concentration of nonprofits in industry sectors, such as health care, where average wages are lower than for all industries. Many of these sectors are those in which nonprofits represent a significant portion of private employment. For instance, nonprofits represent 64% of private employment in education, 54% in social services, and 43% in health care nationally. However, for-profit in these sectors is outpacing nonprofit employment, and nonprofits are losing market share.

**Nonprofit Sector Expansion**
Despite the private sector’s increasing market share of key industry sectors, the overall rate of growth in these sectors and the increasing market share of nonprofits in other sectors, such as the arts, suggests we can expect nonprofit employment to continue to grow. Across the nation, nonprofit employment grew an estimated 18 percent between 2000 and 2010, at an average annual rate of 2.1%. In contrast, for-profit jobs declined at an average rate of -0.6% per year during that time. In the East South Central region, nonprofits grew by 1.5% per year and private sector jobs declined by -0.8% per year. Clearly, the nonprofit sector is not only a significant employer and economic engine, but also a very resilient employer during recessionary times.
Volunteers
- Memphis nonprofit organizations use at least 259,200 volunteers per year, providing 29 million hours of service.
- The value of annual volunteerism in Memphis is $620 million.
- Almost 25% of Memphis residents volunteer, ranking the city 38th among 51 large cities.
- The average volunteer time per resident is nearly 28 hours each.

Nonprofits as Economic Engines
In addition to providing critical services to those in need and jobs to thousands of people, nonprofits are important economic engines. They buy goods and services from local businesses, stimulate the local economy through indirect expenditures of related sectors and induced expenditures of household incomes, and act as catalysts for economic revitalization by attracting additional community investments. For instance, in the state of Tennessee, community health centers, which employ 2,400 people, generate a total economic impact of $218,703,999 (2008). Nonprofit organizations also support the area’s tourism industry. Museums, the Zoo, and Shelby Farms are all nonprofit organizations that attract tourists. The vibrancy and importance of nonprofit organizations can be seen throughout our lives.

PART II: TRENDS IN DEMAND FOR NONPROFIT SERVICES

The Nonprofit Safety Net
- Nonprofits have a wide variety of beneficiaries, but many serve low-income, vulnerable people.
- 48% of survey respondents serve more than 75% low-income people.
- 25% serve between 25% and 75% low-income people.
- 30% of respondents are safety net providers. Safety net service providers deliver a significant level of health care or other services, including food, housing assistance, financial assistance, and supportive services for low-income and disadvantaged populations.
- 90% of respondents serve children and youth. Thirty percent serve a clientele of more than 50% children and youth.
- 76% percent of respondents serve seniors. Ten percent serve a clientele of more than 50% seniors.

Demand Still Increasing
Survey respondents largely report that demands for their services and programs continue to rise. Among this year’s findings:
- 74% of respondents experience increased service demands between FY 2012 and FY 2013, the same increase reported between FY 2011 and FY 2012, and up slightly from 72% in FY 2011, 71% in FY 2010, and 60% in FY 2009.
- 40% of this group experienced a significant increase in service demands in FY 2013, compared to 42% in FY 2012, 35% in FY 2011, and 29% in FY 2010.
- 21% of respondents said their level of service demands stayed the same in FY 2013, roughly the same percentage as in previous years.
5% reported decreased service demands in FY 2013, the same percentage as FY 2012 and down from 8% in FY 2012 and FY 2011.

More Clients

Many nonprofits experience growing demand for their services in the form of increased numbers of clients. Organizations that provide job training, GED and ESL training, services to abused children, elder care, and services to those with disabilities reported significant volume increases in their service loads.

Different Needs

Nonprofits also saw their clients presenting with more or different needs. In the years since the foreclosure crisis, many health and social services organizations have had a greater number of clients facing homelessness or housing instability. As a result of high unemployment, there was more demand for financial assistance, job training, and job seeking help. Mental health and substance abuse treatment providers reported that they are seeing younger clients and more with co-occurring disorders.

Nonprofits in the region continue to see more people in need of services, but this year’s survey suggests the phenomenon of “new and different” needs may be dropping off slowly:

- 90% of respondents whose organizations experienced increased service demands characterized them as the result of increased numbers of people seeking services in FY 2013. This figure is up from 82% in FY 2012, 80% in FY 2011, and 62% in FY 2010.
- 100% of large organizations reported experiencing increased numbers of people seeking services, compared to 54% of small and 61% of medium organizations.
- 21% of respondents whose organizations experienced increased service demands say their clients have additional and/or more severe needs in FY 2013, down from 39% in FY 2012, 58% in FY 2011, and 28% in FY 2010.
- 29% of small organizations were likely to report additional and/or more severe needs, compared to 18% of medium and 12% of large organizations.

Meeting Demand

58% of respondents were able to meet increased demand for services this year, up slightly from 53% in FY 2012 and 57% in FY 2011.

Smaller organizations were likely to say they had met or will meet increased demand this year (68% compared to 65% of medium and 59% of large organizations).

Those organizations that could not fully meet demand almost uniformly cited financial constraints as the reason, and a majority pointed specifically to a shortage of funding for adequate staff and space. Health and social service organizations with government contracts report that the state limits eligibility for their services, yet many ineligible people cannot afford to pay for services. Others said that funding has not kept up with growing demand and that government funders in particular are paying a smaller portion of expenses. One respondent succinctly summarized all these themes: “One of me, many of them.”
PART III: FINANCES

Financial Results
- This year’s survey suggests that Mid-South nonprofits are continuing to financially stabilize after the tumultuous early recession years.
- 48% of responding organizations ended FY 2013 with an operating surplus, up from 35% last year.
- 23% will end their year with a deficit, down 28% from last year.
- 29% will end with break-even financial results, down from 37% last year.
- 75% of large organizations reported a surplus or expected surplus, compared to 50% of medium organizations and 32% of small organizations.

How much deficit?
Of organizations that ended/will end FY 2013 with a deficit:
- 33% will end with a deficit of less than $10,000.
- Nearly 29% will end with a deficit between $10,000 and $50,000.
- 12% will end with a deficit between $50,000 and $100,000.
- More than 26% will end with a deficit of more than $100,000.

Note: Although deficits can indicate unexpected expenses, decreases in, and/or poor financial management, they can also be strategic. Organizations may decide to invest in infrastructure or program expansion based on having adequate assets, working capital, cash, and credit to absorb a deficit for one or more years, if they have done long-term forecasting to prevent long-term erosion of their assets.

Reserves
Cash reserves address the need for temporary liquidity, filling in the timing gaps between expenses and revenues. Reserves can help organizations handle program and staffing changes and invest in new programs and fundraising. What constitutes a healthy cash reserve is dependent on each organization’s financial structure and the likelihood of late payments, other funding gaps, and/or unanticipated opportunities. However, all organizations should have at least a few months of cash on hand. This year, more respondents have at least six months of operating cash than in prior years. However, slightly more organizations also have a month or less of operating cash, with fewer organizations in the mid-range:
- 22% of respondents have only enough cash on hand, including reserves, to cover one month or less of operations, slightly up from 21% in FY 2012 and 2011.
- Nearly 42% have enough cash on hand to cover between two and six months of operations, down from 52% last year.
36% have enough cash on hand to cover more than six months of operation, up from 27% last year.

32% of small organizations had one month or less of cash reserves available, compared to 16% of medium and 17% of large organizations.

28% of respondents had to dip into their reserves in FY 2013, fewer than the 33% reported in FY 2012 and 36% in FY 2011.

Of this group, nearly 63% have spent down less than 5% of their reserves, up from 51% in FY 2012. Nearly 22% of this group spent down between 6% and 25%. Sixteen percent spent down more than a quarter of their reserves, down from 19% in FY 2012.

Changes in Assets

71% of respondents reported their organization’s net assets increased between FY 2012 and 2013, while 29% saw their net assets decrease.

91% of large organizations reported an increase in net assets, compared to 63% of small organizations and 69% of medium organizations.

Operating Environment

Nearly 75% of respondents reported their organization’s cost of doing business increased in FY 2013, including costs such as rent, equipment, airfare, and employee health insurance. This figure reflects an increase from last year, when 63% reported increased costs of doing business.

43% said their clients’ changing socioeconomic conditions contributed to a more financially challenging operating environment in FY 2013. Several cited long-term income stagnation and remarked that clients were receiving far less in public assistance than in prior years.

Nearly 16% said their organizations experienced legal and/or regulatory changes that led to financial challenges this year. Several commented on funding cuts due to sequestration, the dissolution of key Federal funding sources, and legislation such as the ACA (health care) or Dodd Frank (housing) that are increasing or will increase costs.

20% said their organizations experienced increased competition from other providers, and many said that these competitors routinely vie for the same limited funding sources.

Financial stability

We asked respondents about their overall sense of financial stability:

61% say they last felt financially stable in FY 2012 or FY 2013

29% say they last felt financially stable between FY 2007 and FY 2011

10% say they have not felt financially stable since before FY 2007
Financial outlook
We asked respondents about their organization’s financial outlook for FY 2014:

- 50% say their financial outlook for FY 2014 is about the same as FY 2013.
- 43% say their financial outlook for FY 2014 is better than FY 2013.
- 7% say their financial outlook for FY 2014 is worse than FY 2013.
- Small organizations were more likely to say their financial outlook for FY 2014 is better than FY 2013, compared to 44% of medium organizations and 30% of large organizations.

PART IV: FUNDING

Nonprofits generate income from diverse kinds of earned and contributed revenues. Although private foundations are frequently thought to provide most of the country’s nonprofit funding, it is actually individual donors that support the lion’s share of the nonprofit sector. It is not surprising that 92% of respondents receive less than half their funding from foundations. However, 86% say they receive less than half their funding from individual donors, the largest and most stable source of contributed funds for nonprofits (though one of the hardest hit by the recession.) Eighty-one percent of respondents receive less than half their funding from government sources.

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>0-25%</th>
<th>26-50%</th>
<th>51-75%</th>
<th>76-100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundations</td>
<td>69%</td>
<td>23%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Government</td>
<td>64%</td>
<td>17%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Individual donations</td>
<td>62%</td>
<td>24%</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Corporate funding</td>
<td>79%</td>
<td>19%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Earned income</td>
<td>55%</td>
<td>24%</td>
<td>10%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Most Funding is Local
- 53% percent of respondents get more than half their funding from local/regional sources.
- 10% get more than half their funding from state sources.
- 9% percent get more than half their funding from national sources, while more than 75% get less than 25% of their funding from national sources.
- Tennessee, Arkansas, and Mississippi combined received less than four percent of the 21.2 billion in grant dollars from the top 1000 national foundations in 2011, according to the Foundation Center. Nearly half this amount is received by Arkansas organizations, largely because of the Walton Family Foundation.

<table>
<thead>
<tr>
<th>Funder Type</th>
<th>0-25%</th>
<th>26-50%</th>
<th>51-75%</th>
<th>76-100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local/regional</td>
<td>39%</td>
<td>8%</td>
<td>24%</td>
<td>29%</td>
</tr>
<tr>
<td>State</td>
<td>71%</td>
<td>19%</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>National</td>
<td>76%</td>
<td>15%</td>
<td>5%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Foundations
There are 267 registered private foundations in the Mid-South, with assets of $1.2 billion. These include:
- 235 in West Tennessee, with assets of more than $1.1 billion.
20 in East Arkansas, with assets of more $20.8 million.
12 in North Mississippi, with assets of more than $96.8 million.

**Funding Trends**

We asked respondents about fundraising results in FY 2013 compared to FY 2012. Nearly half saw fundraising results increase and 19% saw fundraising fall, while 32% said fundraising results were roughly the same as in FY 2012. We do not know to what extent nonprofits invested more resources in fundraising in FY 2013, although national trends suggest this is likely, since the majority of grantmakers have reported receiving increasing numbers of grant applications in recent years.

We asked respondents to characterize funding changes:

- 31% of respondents lost a long-time and/or expected funding source in FY 2013.
- 71% received less funding from an established/expected source than in the past in FY 2013.
- Although decreased funding was linked to all sources, many respondents reported government funding cuts at all levels, especially state sources such as TN Department of Human Services and TN Arts Council. Several mentioned that grants from local foundations were smaller than in prior years.
- As in past surveys, respondents shared their feeling that many funders seem more inclined to fund new start-ups than established programs or ongoing services.
- Increases in fundraising results appear to be largely attributable to increased individual giving. Among those who reported increases in fundraising results, 62% said individuals gave more, 43% said gifts from individuals were bigger, and 40% said they received more major gifts.
- 37% of those who saw increased fundraising results said they received more corporate support than in FY 2012. This is not surprising due to the severe decline in corporate giving that began with the recession, and corporate philanthropy’s slow climb back up over the last few years (but not to pre-recession levels).

**FUNDRAISING BETWEEN FY 2012 AND FY 2013**

<table>
<thead>
<tr>
<th>Change</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Increased substantially (25% or more)</td>
<td>15%</td>
</tr>
<tr>
<td>Increased moderately (5 to 24%)</td>
<td>34%</td>
</tr>
<tr>
<td>Stayed the same</td>
<td>32%</td>
</tr>
<tr>
<td>Decreased moderately (5 to 24%)</td>
<td>13%</td>
</tr>
<tr>
<td>Decreased substantially (25% or more)</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Characteristics of increased fundraising results**

- Individuals gave more: 62%
- Gifts from individuals were bigger: 43%
- More major gifts: 40%
- More corporate support: 37%
- Private foundation grants were bigger: 28%
- More private foundation grants: 28%
- Major gifts with higher amounts: 27%
- More annual funds/memberships: 19%
- More bequests: 12%
- Corporate support was bigger: 12%
- Higher amount of membership fees: 10%
- More government grants: 6%
- Higher amounts of bequests: 4%
- Government contracts were bigger: 4%
- Government grants were bigger: 3%
- More government contracts: 3%

Decreased fundraising results reflect less funding from three key sources:

- 33% of organizations that saw funding decreases observed smaller gifts from individuals and 30% received fewer individual gifts.
- 30% of this group received smaller government grants than in FY 2012 and 23% received fewer government grants.
- 27% of this group said that corporate grants/donations were smaller and 27% also reported receiving fewer corporate grants/donations.

**Restricted Funding**

Restricted funding is designated by a donor for a particular purpose. Donors restrict funds based on their priorities or because they think the practice increases accountability and impact. However, restricted funding increases the burden of tracking and reporting, and many critics believe the practice
makes nonprofits less agile and entrepreneurial. Nonprofits with a lot of restricted funding cannot respond to change in their environments or take advantage of emerging opportunities as easily as those with more unrestricted general operating funds. This year’s survey indicates that while the majority of area nonprofits have less than 20% of their funding restricted, slightly more organizations have a higher proportion of restricted funds than in the past:

- More than 16% say that between 20% and 50% of their funding is restricted, up from 13% last year.
- Nearly 61% say that less than 20% of their funding is restricted, down from 67% last year.

Government Funding

Problems associated with government contracting have become critical for nonprofits across the country. The Urban Institute found that in 2012, 26% of nonprofits with government contracts were waiting for payments for more than 90 days, and that the average amount owed to nonprofits was nearly $200,000. Our survey found many nonprofits taxed by late payments:

- Only half of area respondents whose organizations receive government funding say that funding is timely.
- More than 33% reported regularly receiving government funding more than one month late, up from 29% in FY 2012.
- Nearly 55% of organizations receiving late payments had to use some of their cash reserves to cover expenses as a result.
- 39% had to use their line of credit to cover gaps as a result.
- 27% had to delay vendor payments as a result.
- 6.1% had to reduce staff costs as a result.

Interestingly, different organizations of different sizes reported different top responses to government funding delays. Small organizations are most likely to delay vendor payments, medium organizations are most likely to dip into their reserves, and large organizations were most likely to use a line of credit in response to delays. Some respondents reported more dire means of covering the gap, including delaying payroll and relying on a personal credit card to cover expenses.

In addition to delayed payments, government contracts rarely cover the full costs of services provided or the full cost of overhead. Survey respondents describe government funding being positioned as “helping” nonprofits do their work, rather than paying for a service to its citizens and economy. Several commented on the sequestration cuts that began in the spring of 2013, which decreased Federal funding for state grants by more than $5 billion. Others pointed to state budget crises and described legislators as increasingly less likely to support government spending on nonprofit programs and services.
Much of the apprehension we’ve felt in this community and nationwide about sequestration has stemmed from our uncertainty about what it might mean for organizations like ours. Its impact is slowly coming to light as Meals on Wheels programs nationwide feel the pressure of budget cuts. MIFA Meals on Wheels was included in a ThinkProgress, The Huffington Post, and MSNBC have also featured Meals on Wheels in the past few days.

At MIFA, we have tried to anticipate the impact of sequestration on our programs this year and next and have worked to trim budgets accordingly. But a 4% cut to our Meals on Wheels budget is more than a single-digit number—it represents the 12,700 meals that would feed 50 clients for a year. An additional 4% cut the following year will eliminate another 12,700 meals and impact another 50 clients.

These cuts have implications for our community as well. Our research indicates that, in FY 12, MIFA Meals on Wheels helped save this community over $6.3 million in unnecessary hospitalization and inpatient rehabilitation expenses for our senior clients. Budget cuts like these are not money saved—they are savings lost. These cuts represent a loss to the individuals we serve and the larger community.

― Cecil McGee, Chief Financial Officer, MIFA

PART V: STRATEGIES

Administrative
We asked respondents which administrative actions their organizations took in FY 2013, and how these actions impacted their organizational health. Our research consistently shows that investments in human resources pay off more for nonprofits than any other kind of administrative initiative. Hiring new employees, replacing employees, retaining personnel, and giving raises topped the charts for administrative actions that yielded positive results in FY 2013. Respondents also generated significant positive results through marketing and communications investments (45%) and technology investments (43%). Thirty-six percent of respondents used volunteers more heavily, and many commenters described freeing up staff by shifting tasks to volunteers. Very few organizations chose to cut operating hours and staff costs to improve financial health.

<table>
<thead>
<tr>
<th>Administrative Action</th>
<th>Positive Impact</th>
<th>Negative Impact</th>
<th>Will do in FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hired staff for new positions</td>
<td>45%</td>
<td>7%</td>
<td>40%</td>
</tr>
<tr>
<td>Reduced staff</td>
<td>16%</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>Made replacement hires</td>
<td>44%</td>
<td>5%</td>
<td>44%</td>
</tr>
<tr>
<td>Froze all replacement hires</td>
<td>2%</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Retained all current personnel</td>
<td>42%</td>
<td>5%</td>
<td>50%</td>
</tr>
<tr>
<td>Gave raises</td>
<td>42%</td>
<td>10%</td>
<td>48%</td>
</tr>
<tr>
<td>Froze or reduced salaries</td>
<td>11%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Improved or increased staff benefits</td>
<td>15%</td>
<td>5%</td>
<td>12%</td>
</tr>
<tr>
<td>Reduced staff benefits</td>
<td>5%</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>Relied more on volunteers</td>
<td>36%</td>
<td>5%</td>
<td>36%</td>
</tr>
<tr>
<td>Reduced staff hours (short weeks, furloughs)</td>
<td>2%</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>Invested more in technology (data management, mobile technology)</td>
<td>43%</td>
<td>5%</td>
<td>43%</td>
</tr>
<tr>
<td>Invested more resources in marketing and communications</td>
<td>45%</td>
<td>5%</td>
<td>47%</td>
</tr>
<tr>
<td>Reduced operating hours</td>
<td>3%</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Freezing salaries, cutting staff, and reducing benefits were the actions most reported to have a negative impact. One commenter detailed how avoiding needed technology spending caused a drop in morale.

Human resources investments, marketing and communications, and technology also top the list for administrative actions respondents plan to take in the next fiscal year. Very few said their organizations would reduce operating hours or staff costs next year.

Programmatic Changes

<table>
<thead>
<tr>
<th>Programmatic Changes</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded existing programs/services</td>
<td>50%</td>
</tr>
<tr>
<td>Increased number of people served</td>
<td>48%</td>
</tr>
<tr>
<td>Partnered with another organization to deliver services more effectively</td>
<td>43%</td>
</tr>
<tr>
<td>Added new programs/services</td>
<td>39%</td>
</tr>
<tr>
<td>None of the above</td>
<td>21%</td>
</tr>
<tr>
<td>Eliminated a program or service</td>
<td>15%</td>
</tr>
<tr>
<td>Reduced number of people served</td>
<td>9%</td>
</tr>
</tbody>
</table>

We asked respondents which programmatic changes they made in FY 2013. Half reported expanding their programs and services and 39% reported adding new programs and services. Forty-eight percent reported increasing the number of people served.

Financial Management

We asked respondents which programmatic changes they made in FY 2013. Top responses include:

- Cutting administrative/overhead spending (43%).
- Building reserve funds (35%, up from 19% in FY 2012).
- Conducting scenario or contingency planning (33%, up from 23% in FY 2012).
- Raising service or program fees (24%).

Financial Management Actions

<table>
<thead>
<tr>
<th>Financial Management Actions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cut administrative/overhead spending</td>
<td>43%</td>
</tr>
<tr>
<td>Built reserve funds</td>
<td>35%</td>
</tr>
<tr>
<td>Conducted scenario planning/developed a contingency budget</td>
<td>33%</td>
</tr>
<tr>
<td>Raised fees or prices for services/programs</td>
<td>24%</td>
</tr>
<tr>
<td>Acquired assets such as a building or securities</td>
<td>19%</td>
</tr>
<tr>
<td>Delayed payments to manage cash flow</td>
<td>17%</td>
</tr>
<tr>
<td>Engaged in deficit spending</td>
<td>13%</td>
</tr>
<tr>
<td>Added an earned income service</td>
<td>12%</td>
</tr>
<tr>
<td>Applied for additional credit</td>
<td>11%</td>
</tr>
<tr>
<td>Reduced occupancy costs</td>
<td>10%</td>
</tr>
<tr>
<td>Sold assets such as a building or securities</td>
<td>3%</td>
</tr>
<tr>
<td>Merged with another organization</td>
<td>3%</td>
</tr>
</tbody>
</table>

We asked respondents to identify the most effective thing their organization did in FY 2013 to strengthen mission impact and/or organizational health. Many respondents described strategic development, staff reorganization, and organizational consulting activities as their most valuable investment. Others pointed to program and service delivery analysis as key to focusing their mission and increasing impact. Reducing operating costs and creating new earned income streams were frequently mentioned, as were fundraising investments, including hiring development directors and efforts to strengthen and streamline Boards.

The most effective thing we did...

“…consolidated our development and communications departments, leveraging more creative talent toward fundraising and making all communications donor-centric.”

“…developed a new organizational three-year strategic plan; updated our mission statement; revised the website to be more engaging and added an online giving option; and created and filled a new position to support marketing and development.”

“…focused on the programs and services we can grow. Worked with other organizations with similar missions. Cut programs and services that were not being utilized. Relied less on government funding.”

“…paid knowledgeable consultant to evaluate where we are, where we’ve been, and where we want to be in five years.”

“…implemented strategic plan calling for reduced capital and administrative expenses, budgeting for surplus, endowment campaign, and more efficient program delivery...[also] addressing depreciation by divesting property.”
“...replaced our chief executive, causing the Board leadership to become more involved in keeping the organization focused on mission, and thus improving our organizational health.”

“...looked at ‘what if’ scenarios in light of changing educational landscape. We increased the maximum scholarship award to reduce the portion of tuition parents owe, strengthening our mission.”

“...clarified brand, mission, and key messaging.”

“...participated in workshops sponsored by the Assisi Foundation (Bridges Out of Poverty).”

“...brought another nonprofit under our umbrella as a result of their financial instability.”

“...improved Board participation, developed leadership within the organization.”

“...completed a new strategic plan and organizational structure to address succession planning; successfully completed a challenge gift campaign that increased our endowment and operating reserves.”

“...we are focused on our existing connections. In 2012 we grew the number of people who participated in some way with our work. In 2013 we are focused on deepening our relationships with these people. Our sustainability and ability to deliver on mission [depends on] moving these people to a deeper level of engagement and sense of ownership.”

Advocacy

Many of our country’s most important public policies came about through organizational advocacy. Direct services do not change the policies underlying the problems these services address. Nonprofit leaders often understand these policy-level causes better than anyone else, and make the most powerful advocates for critical policy solutions. We asked respondents if and how they advocate for a particular policy or issue. Top advocacy measures reported by respondents include:

- Meeting with public officials to advocate for funding or legislation (90%).
- Paying dues to an association that lobbies or advocates on behalf of multiple organizations or a sector (46%).
- Participating on government committees or task forces (43%).
- Fewer organizations reported providing testimony or written comments, or submitting letters to media editors, and very few reported hosting political candidates or hiring lobbyists.

Board Leadership

We asked respondents about their Board composition:

- The mean range of Board members of responding organizations is 11-15.
- Nearly 9% have five or fewer Board members and more than 6% have more than 30 Board members.

<table>
<thead>
<tr>
<th>ADVOCACY EFFORTS</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meet with public officials or their staff</td>
<td>90%</td>
</tr>
<tr>
<td>Pay dues to an association that advocates or lobbies on your organization’s behalf</td>
<td>46%</td>
</tr>
<tr>
<td>Participate on government committees/task forces</td>
<td>43%</td>
</tr>
<tr>
<td>Organize grassroots activists to demonstrate, contact public officials, or take some other action with regard to public policy</td>
<td>34%</td>
</tr>
<tr>
<td>Provide public education on policy issues</td>
<td>30%</td>
</tr>
<tr>
<td>Provide testimony on public policy issues</td>
<td>25%</td>
</tr>
<tr>
<td>Participate in the development or revision of regulations</td>
<td>20%</td>
</tr>
<tr>
<td>Publish an op-ed or other written piece in the media about a policy issue or specific legislation</td>
<td>20%</td>
</tr>
<tr>
<td>Take a public stance for or against legislation (e.g., testify at a hearing or submit comments during a public comment period)</td>
<td>19%</td>
</tr>
<tr>
<td>Lobby or hire a lobbyist to lobby for/against legislation</td>
<td>14%</td>
</tr>
<tr>
<td>Host a candidate forum</td>
<td>9%</td>
</tr>
<tr>
<td>Engage in voter registration activities</td>
<td>9%</td>
</tr>
<tr>
<td>Participate in a demonstration or boycott</td>
<td>2%</td>
</tr>
</tbody>
</table>
Only 24% report that more than half their Board members are female.

Only 18% report that more than half their Board members are African-American.

98% report that no more than 10% of their Board members are Latino and 98% report that no more than 10% are Asian.

69% of respondents report that more than half their Board members represent the for-profit sector, with 43% reporting more than 75% come from for-profits.

26% of respondents report that more half their Board members represent the nonprofit sector, and 47% say nonprofit representatives comprise less than 10% of the Board.

Only 2% say that more than half their Board members represent the government sector, and 92% say that government representatives comprise less than 10% of the Board.

Many nonprofit leaders lament the difficulty of recruiting and fully engaging Board members in their roles as stewards, representatives, and advocates for their organizations.

Nearly a quarter of respondents say their Boards participate in fundraising very little or not at all.

23% say their Boards play little or no role in public education and community relations.

Though self-evaluation is critical for high-functioning Boards, more than 28% say their Boards do little or no self-monitoring.

Nearly 68% of respondents describe their Boards as very committed to ensuring impact and a sound financial future and nearly 68% say their Boards provide highly effective financial oversight.

These responses suggest that area nonprofit Boards may be more active than others around the country. Nationally, 42% of nonprofits say their Board does little or no fundraising, 38% say their Board is not active in public education and community relations, and 50% say their Board does no self-monitoring.⁶
PART VI: CONCLUSION

This report examines key dimensions of the Mid-South nonprofit sector: its size and scope; how it is affected by current economic conditions; its financial health; and the strategies it is using to ensure impact and sustainability. The goal of the report is to elevate our understanding of the complex challenges nonprofits face and to increase resources to strengthen the sector. We intend for it to be part of ongoing efforts to communicate nonprofits’ relevance and impact to funders, legislators, support providers, the media, and the community as a whole.

Again this year, we see that local nonprofits are experiencing increased demands for their programs and services, and that many cannot meet these demands. Despite some indicators of an economic comeback, most organizations are facing more difficult financial operating environments than in past years. By some measures, financial health is slowly improving: increases to net assets, healthy reserves, and an overall sense of financial stability are on the rise. On the other hand, funding remains a constant concern, including the lack of national foundation investment in the Mid-South, the loss of long-time funders, ongoing cuts to grants and contracts, and the sense that funders favor “new and flashy” ideas over traditional direct services.

We continue to be impressed by the analysis and actions of nonprofit leaders who shared their management decisions and the outcomes of these decisions on their organizations. Many respondents wrote about the value of keeping good employees and finding ways to give raises and maintain employee benefits. Several described the dividends paid by investing in marketing, communications, and development staff—positions that help everyone do a better job across the entire organization. Since we began doing annual surveys five years ago, we have seen an increase in nonprofits adopting proactive habits such as Board development, strategic consulting, earned income analysis, and contingency planning. These are rigorous, complex processes for which there are no substitutes when it comes to building and sustaining responsive, capable, resilient organizations.

Inadequate and late payments continue to plague nonprofits that contract with the government. But whether or not nonprofits receive direct government funding, they should pay close attention to legislation, regulatory developments, and state and Federal budget dynamics. Many nonprofits that are privately funded serve constituents who get support for the nonprofit services they use. In addition, nonprofits sometimes find themselves competing directly with government programs for limited public resources. Nonprofits have no choice but to advocate for themselves and their clients, yet very few organizations have sustained or effective advocacy functions. Although key legislation on the table may bring nonprofit leaders to momentary action, the essence of effective advocacy is the development of ongoing relationships. Nonprofits must be able to influence political leadership and public opinion and build unity though collaborations and consistent messaging, not just defending their ground but creating new solutions and pushing for new strategies. Government leaders need to be cultivating those relationships as well, improving their understanding of how nonprofits use public resources, provide essential services, and generate a considerable amount of community capital. For this reason, helping the Mid-South nonprofit sector build advocacy capacity and strengthen nonprofit-government relations is one of the Alliance’s top priorities.
THANK YOU

We greatly appreciate our survey participants for making time to take this year’s survey and for contributing such rich, reflective responses. Special thanks to the University of Memphis Institute for Philanthropy and Nonprofit Leadership for researching and compiling the data on Mid-South nonprofits, including the number of organizations, their assets, and the people they employ. We gratefully acknowledge the assistance with data collection provided by graduate research assistant, Naga Deepthi Kollipara and honors student Valeria Ordonez. Many thanks to Leigh Hersey, Ph.D., Assistant Professor and Director of Research, University of Memphis Institute of Philanthropy and Nonprofit Leadership, who oversaw the data collection. Thanks is also extended to Elizabeth Sachs who compiled the survey results and wrote this report.

We look forward to hearing your thoughts about this year’s report, our ongoing research, and our many plans and projects for the upcoming year. Please forward them to:

Nancy McGee, CEO
Alliance for Nonprofit Excellence
901.684.6605, ext. 122
nmgee@npexcellence.org
APPENDIX

Overview of Survey Participants

Geography

Field
Top fields represented include children/youth (16%), arts/culture (13%), and education (12%). Twenty-two percent of respondents are faith-based organizations.

Size
Among respondents, 17% have less than $100,000 in annual revenues, 14% have between $100,000 and $500,000 in annual revenues, 11% have between $500,000 and $1 million, slightly more than 35% have between $1 million and $5 million, and 23% have more than $5 million in annual revenues.

Nearly 17% of respondents have fewer than $100,000 in annual expenses, 17% have between $100,000 and $500,000, 14% have between $500,000 and $1 million, 30% have between $1 million and $5 million, and 22% have more than $5 million in annual expenses.

Number of Employees
45% of survey respondents have fewer than 10 employees, 40% have between 11 and 100 employees, and nearly 16% have more than 100 employees.

Part-Time Staff
Seventy percent of respondents employ ten or fewer part-time staff. Twenty-two percent employ between 11 and 50 part-time staff and eight percent employ more than 50 part-time staff.

COUNTIES INCLUDED IN STUDY

Arkansas
- Clay
- Craighead
- Crittenden
- Greene
- Lee
- Mississippi
- Phillips
- Poinsett
- Saint Francis

Mississippi
- Alcorn
- Benton
- DeSoto
- Marshall
- Prentiss
- Tippah
- Tishomingo
- Tunica

Tennessee
- Benton
- Carroll
- Chester
- Crockett
- Decatur
- Dyer
- Fayette
- Gibson
- Hardeman
- Hardin
- Haywood
- Henderson
- Henry
- Lake
- Lauderdale
- Madison
- McNairy
- Obion
- Shelby
- Tipton
- Weakley

SURVEY RESPONDENTS BY FIELD

- Aging 2%
- Alcohol and drug treatment 3%
- Animal welfare 0%
- Arts/culture 13%
- Children/youth 16%
- Community development 6%
- Criminal justice 1%
- Disabilities 5%
- Economic development/employment 3%
- Education 12%
- Emergency/disaster relief 0%
- Health 9%
- Housing 4%
- Human services 10%
- Literacy 1%
- Mental health 0%

Total Revenue FY 2013

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $100k</td>
<td>16.9%</td>
</tr>
<tr>
<td>$100k-$500k</td>
<td>13.8%</td>
</tr>
<tr>
<td>$500k-$1M</td>
<td>10.6%</td>
</tr>
<tr>
<td>$1M-$5M</td>
<td>35.6%</td>
</tr>
<tr>
<td>$5M-$10M</td>
<td>7.5%</td>
</tr>
<tr>
<td>$10M-$25M</td>
<td>10.0%</td>
</tr>
<tr>
<td>$25M-$50M</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Nearly 70% had Full-Time Staff of 50 or Fewer

<table>
<thead>
<tr>
<th>Full-Time Staff Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-10 Full-Time Staff</td>
<td>44.7%</td>
</tr>
<tr>
<td>21-50 Full-Time Staff</td>
<td>22.7%</td>
</tr>
<tr>
<td>101-500 Full-Time Staff</td>
<td>11.3%</td>
</tr>
<tr>
<td>11-20 Full-Time Staff</td>
<td>8.0%</td>
</tr>
<tr>
<td>51-100 Full-Time Staff</td>
<td>8.0%</td>
</tr>
<tr>
<td>501-1000 Full-Time Staff</td>
<td>3.3%</td>
</tr>
<tr>
<td>1001+ Full-Time Staff</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Total Expenses FY 2013

<table>
<thead>
<tr>
<th>Expenses Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $100k</td>
<td>16.6%</td>
</tr>
<tr>
<td>$100k-$500k</td>
<td>17.2%</td>
</tr>
<tr>
<td>$500k-$1M</td>
<td>13.5%</td>
</tr>
<tr>
<td>$1M-$5M</td>
<td>30.7%</td>
</tr>
<tr>
<td>$5M-$10M</td>
<td>6.7%</td>
</tr>
<tr>
<td>$10M-$25M</td>
<td>9.8%</td>
</tr>
<tr>
<td>$25M-$50M</td>
<td>5.5%</td>
</tr>
</tbody>
</table>
Contractors
Twenty-eight percent of respondents contract with at least six independent contractors to deliver services, and six percent contract with at least 30 independent contractors. Use of contractors tends to increase with size, and nearly a quarter of large organizations have more than 30 contractors.

(Endnotes)
1 U.S. Census Bureau 2007 Economic Census
5 http://data.foundationcenter.org/