



Press Release

As the Nonprofit Sector Faces Recession, Nonprofit Finance Fund Outlines 7 Recommendations to Prepare for Economic Downturn

How “Fake It Until You Make It” Mentality and Lack of a Financial Cushion Can Cripple Nonprofits; Data: Downturn Ripples Felt Years Later by Nonprofits, With Half of Government-Backed Nonprofits Still in the Red Three Years After 9-11

NEW YORK CITY/// Nonprofits, funders and donors facing a possible recession would do well to draw lessons from the challenging economic period that the sector went through in 2001, made worse by 9-11, according to Nonprofit Finance Fund President and CEO Clara Miller. The NFF head outlined seven recommendations for what nonprofits can do now to ease the sting of any current and future recessions.

NFF’s analysis of data from over 6,500 mid-sized nonprofits reveals that it took years for many nonprofits to recover from the economic downturn in the U.S. that started in 2001. The number of all nonprofits in the sample that suffered deficits grew by 20 percent in fiscal year 2001, and had not returned to 2000 levels by 2005. Over 40 percent of the nonprofits reported a deficit in 2001, as well as in the two years immediately thereafter. From 2001-2003, nonprofit expenses, in general, grew at a faster pace than revenue, suggesting that organizations were providing more services than they could afford in response to increased need from their constituencies. It was not until 2004 that expense growth rates among the nonprofits reflected a full adjustment to the lower revenue growth rates. More of the organizations that are entirely supported by government feel the pinch during challenging economic times than those with even 10 percent of funding from another source. Half of the entirely government-financed organizations reported deficits in 2002 and 2003.

Clara Miller, president and CEO, Nonprofit Finance Fund, said: **“Nonprofits that choose to learn from the challenges that the sector experienced during the last recession will be well positioned to deal with a new one. What nonprofits do now will have consequences that resonate far beyond the bottom lines of the organizations. The expected economic downturn will pose serious challenges for clients that rely on the services of nonprofits, particularly those in low-income communities. With fewer dollars flowing into the sector, nonprofits face the possibility of being forced to cut services at a time of increased need. Philanthropists, government, and nonprofit organizations will need to work together much more closely to ensure ongoing services for at-risk populations.”**



Dr. William J. Eberwein, president and founder, Children's Choice: **"With the perfect storm for nonprofits coming, we all need to prepare effectively. Child welfare numbers increase when the economy is going south. Things will be particularly challenging in many rural communities, which fare particularly poorly in these economic conditions. Much of the funding these groups receive comes from government cost-reimbursement contracts. They can't build a reserve to weather hard times, as the government expects to take back any monies that aren't spent. It would be ideal if the government could ease up on this policy, particularly during times of economic hardship."**

Recommendations for Nonprofits in a Recession

1. Nonprofit managers, board members and professional advisors can come together and review and optimize three critical aspects of a nonprofit's financial assets:

- Cash deposit risk – is your money insured, or distributed among a number of banks?
- Concentration of investment risk – are your investments diversified and varied?
- Concentration of revenue risk – are you dependent on a particular revenue stream that might dry up?

2. Nonprofits heading into recession need to avoid "strong, silent behavior" and sustained spending, which has been a hallmark of the industry for more than a decade, and continues to make nonprofits weaker, not stronger. Miller explained: "We are entering a period of financial crisis, and we can't afford to 'fake it until we make it.' This heroic type of behavior does no one any good in the long run. Nonprofits need to share worries with boards and funders, and enlist their support in getting ready for a possible recession. Organizations need to try to get by on decreased revenue and programmatic spending for a year or two in light of new financial indicators, before moving forward with challenging expenses."

3. Nonprofits should engage with board members and funders in contingency planning on what is likely to happen to clients and funders during a recession. Clara Miller said: "The end clients are especially important, and face the greatest risk: many of the populations served by nonprofits are fragile, needy people, whose need increases in times of financial stress. The goal of surviving a recession or economic recession is not to stay afloat for the sake of staying in business, but rather to make sure you're around to keep serving the public, particularly in times of increased demand for services. It's important to get board members and funders to go public with that message -- that the organization's survival is important because of the clients it serves."

4. Nonprofits should avoid large investments in fixed assets and infrastructure (i.e., a building purchase, new hires or expansion of services), and if change (growth or retrenchment) is likely, then nonprofits need to work with funders and board to build a cushion to allow flexibility and course corrections. Miller explained: "As economist Peter



Bernstein put it, 'Risk means not having cash when you need it.' And that is particularly true for nonprofits, which often have liquidity problems in the best of times. Liquidity becomes even more of an issue during a downturn, when there is a temptation to maintain or increase services, and hence expenses, even if revenue is declining."

5. Nonprofits need to get a firm handle now on their revenue patterns. Clara Miller said: "Organizations can examine revenue cycles to see if they're contra-economy or not. In some cases, the revenues of nonprofits actually rise during a recession. If that's true, nonprofits can build growth funding to allow rapid expansion to meet needs. If the opposite is true, nonprofits can take actions in step with cushion-developing approaches."

6. Engage in contingency planning with board members and funders on how to respond to higher demand for services. The goal is to ensure you stay afloat to serve the community. This may mean partnering with other complementary organizations.

7. If they offer services (e.g., job retraining, food kitchens and housing services) that will lessen the negative impact of an economic downturn, nonprofits should approach government funders more aggressively. Clara Miller noted: "Nonprofits should propose revenue-neutral changes if the government can assist it with expansion during a recession or improving its practice within the context its mission. Nonprofits can also band together around quality-adequate pricing, and consider shared platform investigations, using already-scaled ones available."

About the Nonprofit Downturn Data

The Nonprofit Finance Fund data on nonprofits in the 2001 economic downturn period was drawn by a randomized process from GuideStar's database of IRS 990 forms for Fiscal Years Ending in 1999 through 2005 for mid-sized agencies (those with annual expenses between \$500,000 and \$20,000,000). The 6,585 501-c-3 agencies represent all philanthropic sectors and geographical regions of the United States.

About the Groups

Nonprofit Finance Fund (NFF) is a national leader in nonprofit, philanthropic and social enterprise finance. Founded in 1980, NFF (nonprofitfinancefund.org) provides loan financing, access to capital and direct advisory services that build the capacity and the financial health of nonprofits. A leading community development financial institution with over \$80 million in assets, NFF has



provided over \$175 million in loans and access to additional financing via grants, tax credits and capital in support of over \$1 billion in projects for thousands of nonprofit clients nationwide. NFF has a staff of more than 75 serving nonprofits nationally from offices in Philadelphia, New York City, Newark, New Jersey, Boston, Detroit, Washington, D.C., and San Francisco.

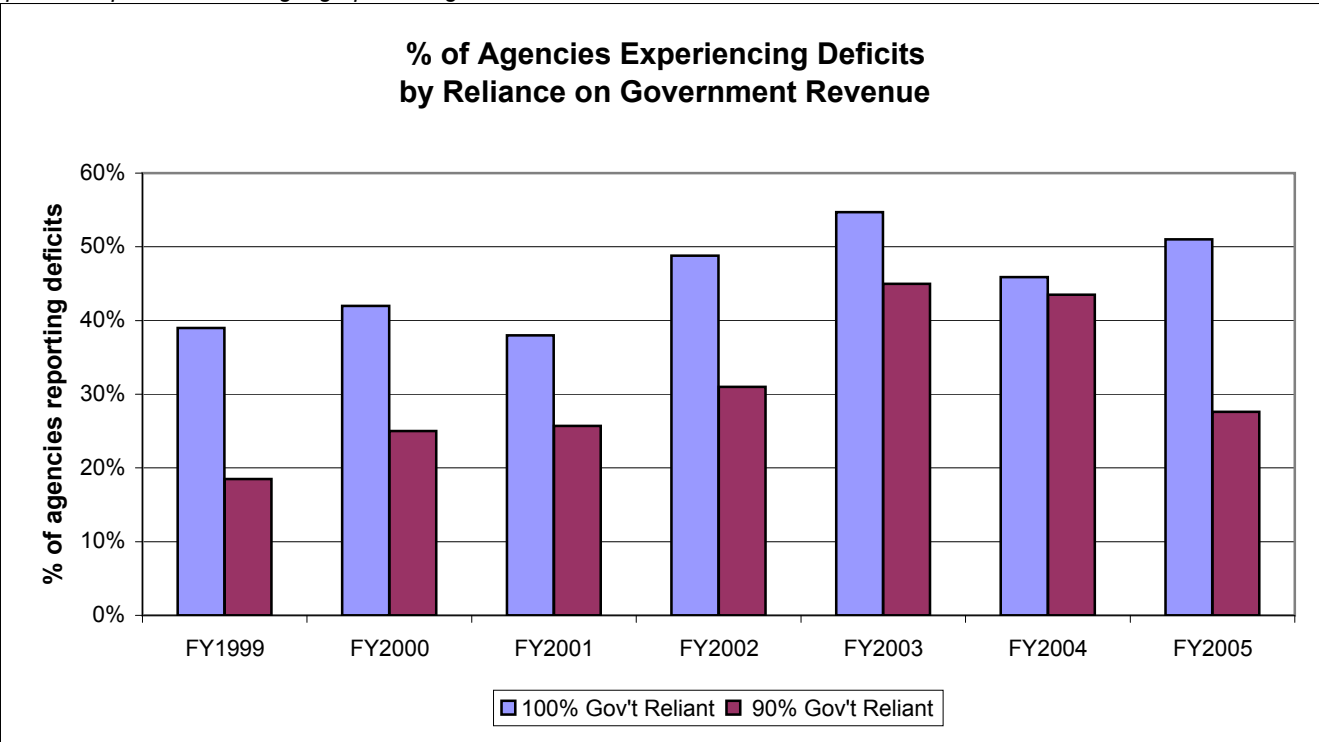
Children's Choice was founded in 1982 as a Christian nonprofit child welfare agency and now serves hundreds of children each year throughout Pennsylvania, New Jersey, Delaware, Maryland, and Washington, DC. Children's Choice provides foster care, kinship care, and adoption services. The organization serves as a bridge for individuals who are in need of the re-integrative processes of family living. Intensive, individual, supportive casework counseling services empower clients to achieve their highest potential as responsible citizens.

Visit us at nonprofitfinancefund.org for more information.

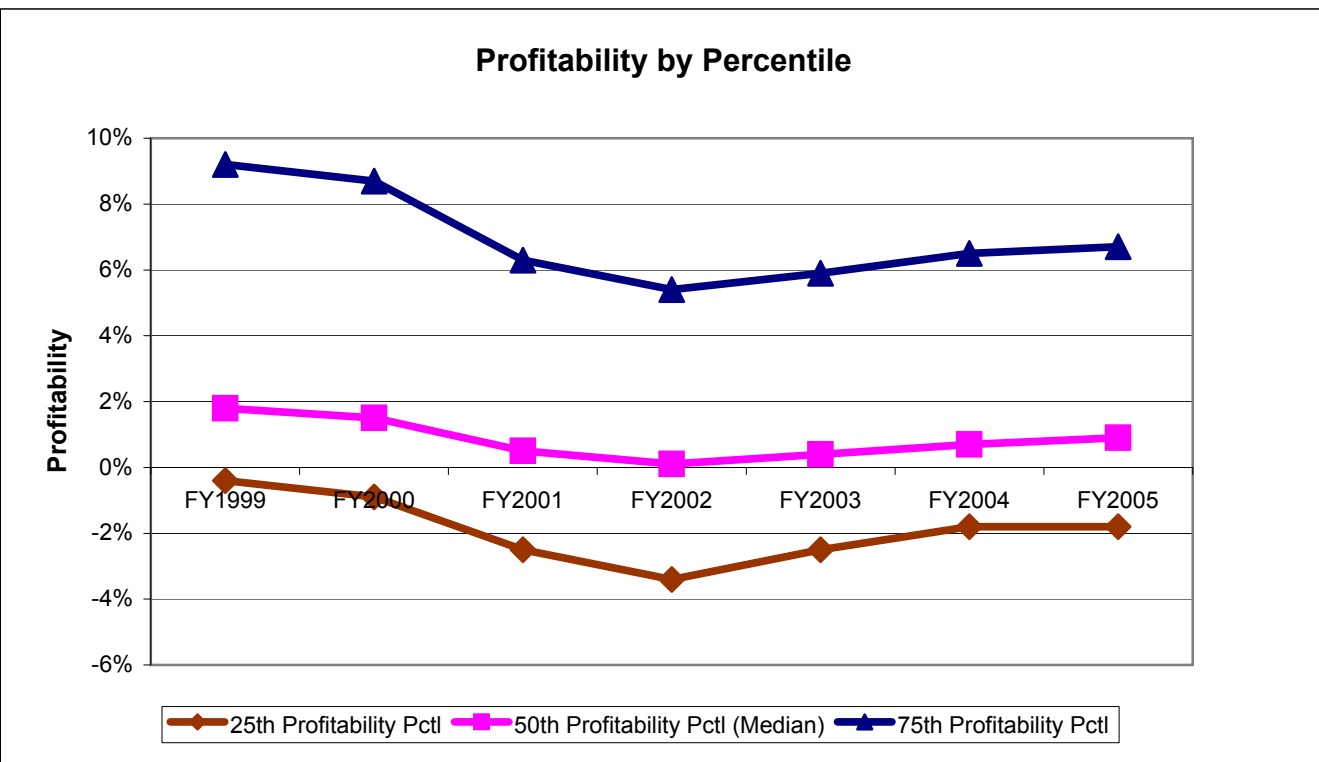
NONPROFIT TRENDS: THE 2001 ECONOMIC SLOWDOWN AND ITS AFTERMATH

An analysis by Nonprofit Finance Fund February 13, 2008

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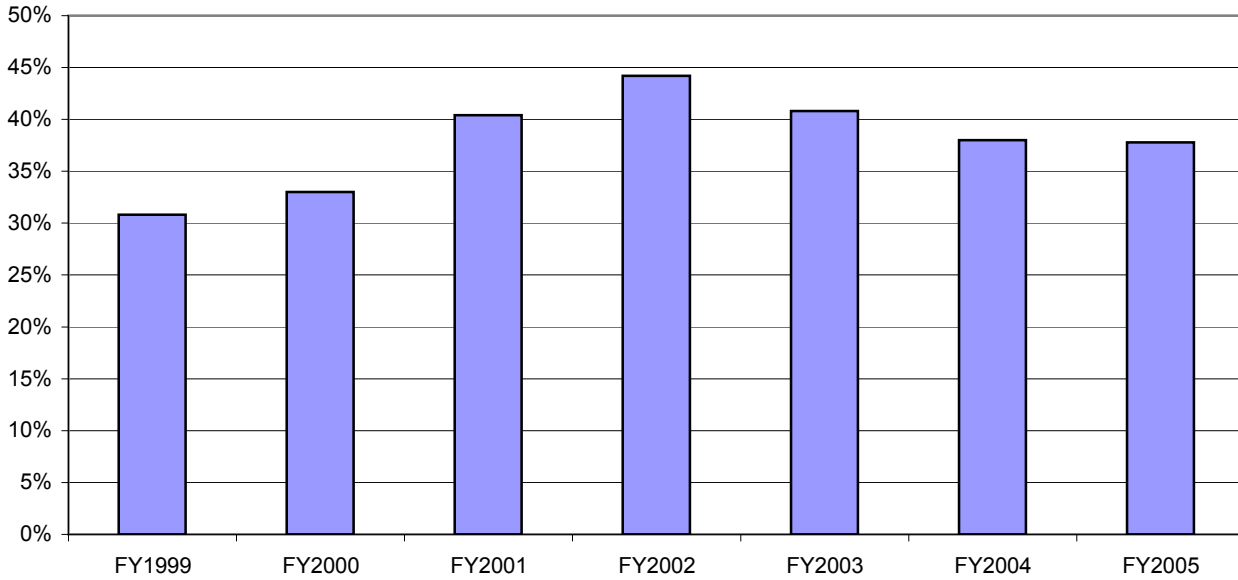


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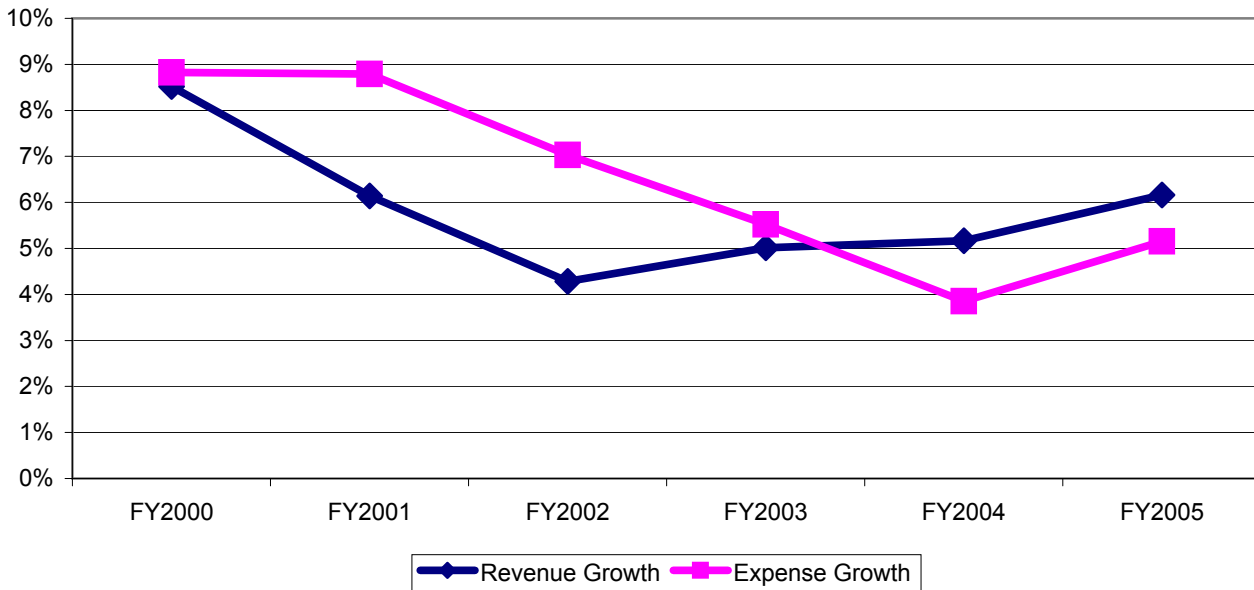
Profitability dipped for mid-sized organizations in 2001, and fell further in the challenging economic conditions of the following year.

Percentage of Agencies Reporting (post depreciation) Deficits



The number of nonprofits that suffered deficits grew by 20 percent in fiscal year 2001, and had not returned to 2000 levels by 2005. Over 40 percent of the nonprofits reported a deficit in 2001, as well as in the two years immediately thereafter.

Revenue and Expense Growth



From 2001-2003, expenses generally grew at a significantly faster pace than revenue, suggesting that organizations may have been providing more services than they could afford in response to increased need from their constituencies. It was not until 2004 that expense growth rates reflected a full adjustment to the lower revenue growth rates.