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## **Economy's Strain Puts New Demands on Leaders**

*By Ben Gose*

When Donna Horkey joined the board of the Sunrise Symphonic Pops Orchestra a year ago, the charity had spent two-thirds of its cash reserves in just two years. The board's 100-year-old chairman and its other elderly members were reluctant to raise ticket prices, fearing that their friends on fixed incomes in Sunrise, Fla., would be unable to afford it. But Ms. Horkey, who now heads the board, says its members were overlooking a bigger concern.

"I told this little group of 90-year-old ladies, 'If we can't pay the orchestra members so that they can cover their rent, there won't be an orchestra,'" recalls Ms. Horkey, who is also a human-resources consultant. In the past 10 months, Ms. Horkey has raised ticket prices significantly, instituted a minimum donation level for board members, and recruited board members who have sales, legal, and fund-raising experience.

A survey of 4,600 charities to be released this week by the Nonprofit Finance Fund captures what is becoming a familiar and depressing story: an increasing demand for services; delays in payments, especially of federal and state contracts; waning cash reserves; and a bleak outlook for 2012.

Ms. Horkey's experience shows that strong leadership, particularly at the board level, can make the difference in whether a charity perseveres or flounders in today's tough environment.

Unfortunately, the new survey's findings show that the outcome at Sunrise Symphonic may be all too rare.

Nearly three-quarters of charity leaders said they can't count on board members to "leverage their relationships" to help raise money, and almost 40 percent said their boards don't understand the basics of their charities' expenses.

When a charity is reeling, others most able to help—the donors—may not even know about the situation, the survey found. Only one in five charity leaders said they felt comfortable talking with their donors about cash-flow concerns. And only 6 percent said they were comfortable talking to individual donors and foundations about debt.

### **Thin Margins**

Challenges like these with boards and donors come at a time when many charities are already under significant financial stress. More than half of the charities that responded to the survey rely on local or state government contracts, and 45 percent receive federal contracts or grants.

Three-quarters of the organizations said federal and state contracts don't cover the full cost of their services, and a majority of the charities said they are paid late under those contracts.

When payments arrive late, more than 60 percent of the groups said they use cash reserves to pay for operations. But most groups don't have much cash to tap. Some 57 percent of the charities said their reserves would cover three months of operations or less.

"People in the nonprofit sector have become inured to crisis as a general operating condition," says Antony Bugg-Levine, chief executive of the Nonprofit Finance Fund. "But this time, the business-as-usual response won't be good enough. With such thin margins in funding, ineffective management will lead many more organizations to fail."

### **Expanding Mission**

The news from the survey isn't all bad. More than half of the charities added or expanded programs, and more than half increased the number of people they served.

But the expansion isn't always coming from a position of strength. Darryl Evey, executive director of the Family Assistance Program, in Victorville, Calif., says his charity had focused exclusively on domestic violence—until government support for programs in that area began to drop. The charity's government contracts for those programs are down 20 percent from two years ago, and the charity's board even considered closing the doors or merging with a partner.

Instead, the charity tapped a new stream of revenue—using federal stimulus dollars from San Bernardino County to open a new shelter for homeless youths. The new money is helping to cover Mr. Evey's salary and other administrative costs, and has allowed Family Assistance to avoid making any major cuts to its domestic-violence program.

"We're careful not to drift outside of our mission, but we're expanding our mission a bit," Mr. Evey says. "To help victims of domestic violence, these are the things that we need to do."

### **Rising Demand**

This is the fourth annual survey by the Nonprofit Finance Fund, which provides loans and consulting services to charities.

More than half of the nonprofits that provided data are human- or social-services organizations, which have been hit harder than some other organizations as a result of their reliance on state and federal contracts.

The survey, first conducted in 2009 after the onset of the financial crisis, has seen increases each year in the number of charities that say the demand for services is rising. Eighty-five percent of charities said demand for help grew in 2011, and 88 percent expect even more clients in 2012.

Jennifer Talansky, a vice president at the Nonprofit Finance Fund, says the persistent increases in demand may indicate that a growing number of charities are going out of business—with their stranded clients showing up at the doorstep of the surviving organizations.

“We wonder if we’re seeing organizations that are having to pick up the slack from others,” she says.

As charities seek to do more, they’re turning to their boards to help find the money to pay for the new services. But the survey reveals some dissatisfaction with the efforts of board members.

Habitat for Humanity of Brevard County, in Florida, will build 21 houses for low-income families this year, a 50-percent increase from its recent average of 14 a year. Until recently, its board was reluctant to aggressively help the charity raise money to meet its building goals, says Joe Gassman, the charity’s president.

But in the past year, a new board chair and several new board members have been more receptive to Mr. Gassman’s long-standing suggestion that they receive training in how to raise money from BoardSource and Habitat for Humanity International.

“When you look at it purely as solicitation, it’s scary,” Mr. Gassman says. “But when we started getting board members engaged, so that they could experience the rewards of what we’ve accomplished and then go tell that story to others, they’re finding that raising money is much easier.”

Sarah Lange, development director at Abby’s House, a shelter for women and children in Worcester, Mass., says the perceived failures of charity boards may in fact lie with the management.

Many organizations don’t establish the right procedures for mobilizing boards, says Ms. Lange, who worked as a fund-raising and board-development consultant for 12 years before joining Abby’s House just over a year ago.

Instead of putting pressure on new board members to strongly hit upon their friends for donations, she suggests inviting them to private parties with potential donors or asking them to lead tours of a charity’s operations.

In such settings, the members’ enthusiasm for the charity’s work can be shared with prospective donors in a more-natural setting.

“You’ve got to put new board members to work immediately,” Ms. Lange says. “Don’t let them sit around for a year. By then their enthusiasm has waned.”

### **Candor a Concern**

Having open conversations with supporters, including individuals and foundations, can be an even bigger challenge, say charity leaders.

Indeed, 22 percent of nonprofits said they could not comfortably discuss any financial problems with grant makers or other potential supporters, and only a small share of the recipients said they felt that they could openly discuss matters like cash-flow concerns or lack of reserves.

Many organizations are reluctant to discuss such worries—or ask questions about delayed payments on grants—out of fear that such candor will be viewed negatively and jeopardize future support, says Michael Callaghan, executive director of Nazareth Housing, which operates a shelter and provides services to prevent homelessness in New York City.

“When you got the letter six months ago but the check still hasn’t arrived, development directors will ask each other, ‘How long do you wait?’” Mr. Callaghan says. “You don’t want to look ungrateful or demanding, but it could be clerical issue or it could be a cash-flow issue on the part of the foundation. There’s so much unknown on the nonprofit side about how a particular foundation manages itself.”

Kerry Sullivan, president of the Bank of America Charitable Foundation, which helped sponsor the survey, says the reluctance of nonprofit groups to share unflattering financial information is something that foundations should take into account.

Foundations should be forgiving about a charity’s shaky finances, she says, as long as its programs are achieving results.

“Funders have to change how they look at the health of an organization,” says Ms. Sullivan. “After three or four years of a downturn, the balance sheets are going to look different.”

A report on the survey results is available at [nonprofitfinancefund.org](http://nonprofitfinancefund.org).

#### **Board Members Gifts and Expertise**

**54%** of boards do not have members who make sufficiently large donations to help, while **34%** have members who do give enough.

**36%** of boards don't provide sufficient financial expertise to help a charity's bottom line.

**28%** of nonprofit boards don't understand or use financial data to make decisions.

**41%** of nonprofit boards can't discuss the organization's financial situation knowledgeably with outsiders.

*SOURCE: Nonprofit Finance Fund*