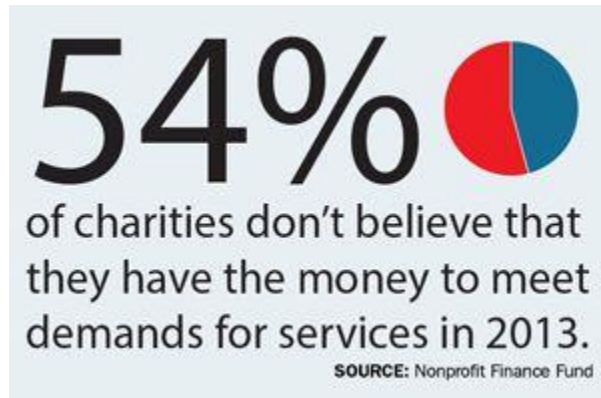


Money Woes Plague Charities Struggling to Meet Demand



By Doug Donovan

When Gwen Relf examined the finances of her small Phoenix, Ariz., nonprofit last year, the chief executive realized drastic action was required.

So she and three other executives at Rehoboth Community Development Corporation agreed to a six-week pay cut.

“It was hard,” Ms. Relf said.

But none of the furloughed staff members quit. Instead, they continued working to establish new revenues to replace their dwindling government contracts and foundation grants.

Ms. Relf’s group, which traditionally focused on helping troubled youngsters, now also manages a four-unit low-cost housing complex that it obtained through a partnership with a national bank.

It’s also purchasing a preschool that it will operate and is planning to offer a home-repair service.

In 2012, Rehoboth generated \$150,000 in sales of rehabilitated properties that helped Ms. Relf return the lost pay and gave the group its first surplus in two years.

“We think that’s going to help sustain us in the long term,” Ms. Relf said.

Tight Finances

Rehoboth CDC is not alone in facing stiff economic challenges—but it is also one of many nonprofits seeking innovative ways to transform how it raises and earns money, according to the 2013 Nonprofit Finance Fund’s annual survey of nearly 6,000 organizations.

The survey paints a gloomy picture for nonprofits even amid signs of economic recovery. Among the key findings:

- For the first time in the survey’s five years, more than half of the charities said they were unable to meet demands for assistance last year, and even more groups expect to struggle to do so this year.
- One in four groups is running so close to the bone it had less than 30 days’ cash in hand.

- Thirty-nine percent of the charities said their financial situation is so challenging they plan to change how they raise and spend money.

“The challenge that many organizations face is that this is the fifth year of increased demands,” said Antony Bugg-Levine, chief executive of Nonprofit Finance Fund.

“There’s a sense that they have moved from drowning to treading water,” he said.

“It’s a sense of hunkering down and surviving as opposed to real indications that organizations have been able to turn the corner and been able to thrive.”

Diversifying Revenue

Nonetheless, lots of groups are still hopeful they can turn that corner if they diversify their sources of revenue.

Twenty-three percent said they will seek revenue from sources other than grants or government contracts, such as from loans and investors.

Ms. Relf said that in September she secured the organization’s first line of credit, \$75,000 that could have helped her avoid pay cuts.

“We had been making it without any loans,” she said. “If we didn’t have a grant, we just did what we needed to do.”

Private Donations

As government aid has grown shakier, many nonprofits said they were turning more to private sources for support.

Mark Hinderlie, chief executive of Hearth in Boston, said his organization has sought more foundation grants, in part because government funds increasingly require charities to undertake costly evaluations to prove their programs are working.

In 2012, the organization, which helps homeless elderly people, raised \$750,000, up from the \$350,000 it took in from private sources six years ago.

Government support over that same time fell by about the same amount, to just under \$2-million, he said.

Hearth also established a board of visitors five years ago that in 2012 grew to 100 people. Members of the board, a more informal version of its board of directors, are each asked to contribute or attract \$1,000 annually.

Mr. Bugg-Levine said many charities appear to believe they can make up for losses in government support by turning to deep-pocketed and well-connected board members.

But that solution could backfire, he said.

“If everyone does that, you’re going to end up with board members being tapped out,” he said. “Doing something differently than in the past doesn’t mean doing something successful.”

Seeking Efficiency

The survey found that many groups are responding aggressively to donor demands for better data about results. That's probably because 54 percent of the groups said their supporters had asked them to measure their long-term impact in 2012.

More than half of nonprofits said they collect data regularly, while 29 percent collected it "sometimes."

The main reasons groups cited for not collecting data regularly were lack of time, lack of resources to hire consultants, and lack of staff expertise.

The challenge groups face is determining how best to balance immediate spending for clients' needs against investing in data collection that will help secure future funds.

"It's a tough balance to get right," said Mr. Bugg-Levine.

Technology investments can also help nonprofits better use the money they have. Jennifer Talansky, a vice president at the Nonprofit Finance Fund, said groups reported using technology to reduce costs, improve efficiency, and prepare for a future of limited finances.

The survey found that 39 percent of charities have upgraded their technology to improve their efficiency.

Carrie Michel-Wynne, housing director for the YWCA of Rochester and Monroe County, N.Y., said her group spent the past three years putting new technology in place to streamline its data recordkeeping. "It helps improve efficiencies," Ms. Michel-Wynne said.

Embracing Advocacy

So does collaborating with other nonprofits, a method that 39 percent of groups reported pursuing.

The YWCA, for example, is now sharing its data system with Salvation Army and the city of Rochester to establish a shared platform for homeless services groups.

"It's harder and harder to find funds, and there are so many layers of bureaucracy that organizations are forced to collaborate," Ms. Michel-Wynne said.

Nonprofits are clearly not sitting on the sidelines as governments continue to slash support, including the recent \$85-billion in federal spending cuts.

The survey showed that 43 percent of nonprofit organizations advocated for their groups with governments in 2012 and that 46 percent plan to do so this year.

Kerry Sullivan, president of the Bank of America Charitable Foundation, which financed the survey, said government spending cuts are only going to make the work of social-service nonprofits that much more difficult in 2013.

"Philanthropy and government can't cover the costs and expenses needed to deliver on the increasing demand," Ms. Sullivan said. "The challenge, and what we're thinking about, is looking at new ways to drive capital to help nonprofits."

The survey results are available on Nonprofit Finance Fund's site, nonprofitfinancefund.org

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