

High Anxiety

by Ruth McCambridge

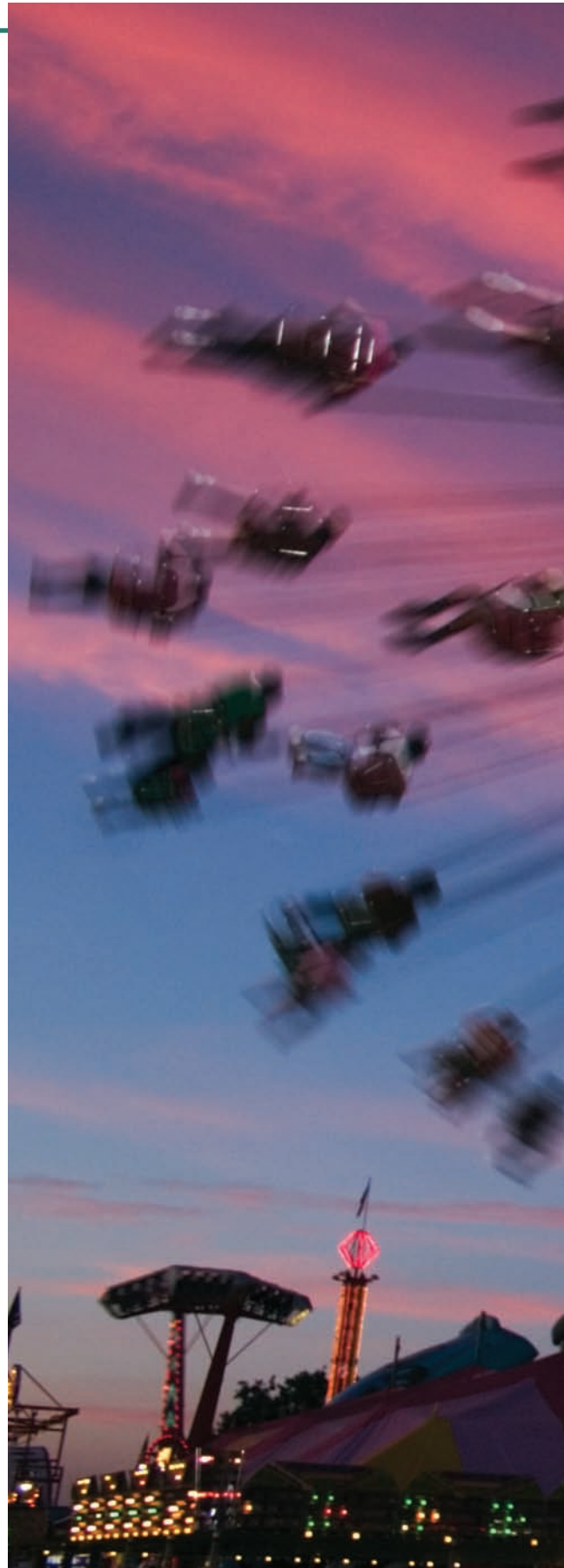
THIS ECONOMIC DOWNTURN IS STILL UNFOLDING, with multiple cascading effects on the constituencies and funding of nonprofits. Because this development comes at a moment when a new administration is at the helm of our nation—with different ideas about how nonprofits and government might interact—the *Nonprofit Quarterly* decided to document your experiences to understand what this notable moment in history will mean for the nonprofit sector.

So as this era unfolds, we are asking *NPQ* readers to volunteer their organizations to be followed over the coming months. This article is the first of a series that chronicles the ways in which ordinary but enormously entrepreneurial U.S. nonprofits adapt in the face of enormous complexity and rapid change.

In short, we have found that the degree to which nonprofits are affected is dependent not only on the field they occupy, which we expected, but also very much on their geography.

Is their state budget in good or bad shape? Is the local economy thriving or waning? Does

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the organization occupy an area with a lot of philanthropy or not so much? These differences are set against a backdrop of profound change on a national basis that manifests differently in different localities.

But going from the macro to the micro level, there is also the variable of the nonprofit's situation pre-crisis. Did the organization have reserves? Did it already suffer from chronic problems, such as reimbursement rates that remained flat for years or a board that can't distinguish between a run-of-the-mill cash flow crisis and a full-blown financial meltdown? Do its funders give project-specific or general operating grants? Is the board exhausted or energized by the challenge that lies ahead?

And finally, there is an immeasurable ingredient of the determination and focus of leadership. Mix it all up, and you'll get a sense of the rapidity with which and the extent to which nonprofits now feel the pain and the rapid, critical decisions that are required of them.

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► Christ Community Health Services

Memphis, Tennessee

Christ Community Health Services



(CCHS), a federally qualified health center in Memphis, Tennessee, has had a notable course in this recession. In December, when it became concerned about the downturn, the organization eliminated eight positions (at the time, three of which were vacant and five of which were occupied). Although these positions represented about 5 percent of its workforce, CCHS avoided eliminating positions that were involved in direct-service delivery to clients. Then, in March, the organization was asked to apply for a half-million dollars of federal money under the stimulus package. The

The Community-Health Context

"Currently, around 1,200 health centers deliver care through over 6,600 service delivery sites in every state and territory," notes a fact sheet from the National Association of Community Health Centers. The document continues on to catalog health centers' role in protecting the most vulnerable members of society:

Health centers serve as the medical and health care home for 18 million people nationally. Health center patients are among the nation's most vulnerable populations—people who even if insured would nonetheless remain isolated from traditional forms of medical care because of where they live, who they are, the language they speak, and their higher levels of complex health-care needs. Nearly all patients are low income, with 71 percent of health center patients having family incomes at or below poverty.

Thirty-nine percent of health center patients are uninsured, and another 35 percent depend on Medicaid. Additionally, about half of health center patients reside in rural areas, while the other half tend to live in economically depressed inner-city communities.[†]

[†]"America's Health Centers," the National Association of Community Health Centers, August 2008 (www.nachc.com/client/documents/America%27s_Health_Centers_updated_8.13.08.pdf).

turnaround time for the grant was approximately one week, and the money was to be made available in another two weeks. The grant will allow CCHS to do more of what it already does: deliver health services to the very poor in Memphis, Tennessee.

Burt Waller, the executive director, has been at the 14-year-old organization since its pre-growth years when it was still small and "felt like a family." So has the current chairperson of the board, who was in the founding group. Despite the group's modest beginnings, Christ Community Health Services was in the right place at the right

time; it was faith based and a health center, both of which were priority areas for the George W. Bush administration. In 2002, CCHS was designated a federally qualified health center. Quickly thereafter it grew tenfold, from a \$1.5 million budget to an annual \$15 million budget. Before that Waller says that it had been in and out of “dire financial straits and in a situation in which the organization could have failed at any time.” In fact, had there been a different group of employees at CCHS, the organization might long ago have been declared DOA. Prior to 2001 and the change in the organization’s finances, staff members even took out second mortgages on their homes to lend CCHS money when the going got tough.

In the organization’s current financial mix, Waller worries about the increasing proportion of CCHS’s patient load that is uninsured and the fact that this will likely increase the number of people who pay at reduced rates. But he does not worry about the center’s line of credit, which can creep into the million-dollar range but then be paid down shortly thereafter. Tennessee’s Medicare program TennCare has gotten as much as six months behind on its payments (Waller admits to some fear during such times) making the almost constant use of the organization’s line of credit necessary. Fortunately, a couple of local hospital systems guarantee the credit line, which means that CCHS can spend more time focusing on the needs of those it serves rather than responding to the worries of bankers relatively unfamiliar with its business.

Over the next few years, Waller expects more growth because local hospitals want to see CCHS expand as a primary health-care provider and because federal interest in the issue of health care access is so high. Waller’s biggest concern in that growth is about talent. “We need providers [doctors and nurses] who can hit the ground running,” he says, “and our salaries are still not at all competitive.” He is also concerned about the fact that the center has not yet made the transition to electronic patient records but thinks that in the

near future money may be made available for this shift if all progresses as he expects.

CCHS aspires to have the recommended three months of reserves. It now has only 30 days’ worth.

Family Health Partnership Clinic

Woodstock, Illinois

The Family Health Partnership Clinic (FHPC) in Woodstock, Illinois, which also provides health services to the very poor, is only a year younger than Christ Community Health Services. This clinic is located in McHenry County, a community with a much higher per-capita income than Memphis, which means that it can’t access the most obvious form of federal support for community health providers. As a result, the organization operates



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primarily with volunteer medical providers, and the number of volunteer providers it has dictates the number of patients that can be seen.

“The county has gone from being primarily agricultural to being much more settled out,” says Suzanne Hoban, FHPC’s executive director. She continues:

There are many more housing developments from which people commute to Chicago. At one point, it was the fastest-growing county in Illinois. It has a very high per-capita income, but this ends up masking a lot of the poverty that actually exists within the county. The other thing that makes this different from surrounding counties is that there’s not one major

The Picower Foundation: A Madoff Casualty

In December 2008, the 20-year-old Picower Foundation of New York announced its closing after losing hundreds of millions of dollars in the stock market decline of 2008 and the investment scheme of Bernard Madoff. Focused on education, medical innovation, and an equitable and inclusive society, the Picower Foundation was ranked as one of the largest foundations in the country, with assets that at one time totaled \$1 billion.

With the Madoff scandal, the foundation's fortunes swiftly changed. In a statement, Barbara Picower wrote, "It is with great sadness that I write to inform you that the Picower Foundation has ceased all grant-making, effective immediately, and will close its doors in the coming months."

city or town that dominates. There's a series of towns in the county, and so the poverty is diffused throughout the county, and there's not one census tract that we can look at and say, "That's where all of our patients live; that's where the poverty is."

And so that has precluded us from getting any kind of state or federal funding for medical services, because we don't qualify. In a neighboring city, like, for example, in Chicago, you can look at certain census tracts and see huge

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areas of poverty. So the state or the feds will be able to designate that area as a medically underserved area, and they will qualify for state and federal funding. Poverty here is spread out.

The Family Health Partnership Clinic serves either underemployed or unemployed people who can't afford the cost of insurance. Patients are 60 percent Hispanic. The clinic's fees are based on income and family size, but "we never turn anyone away" says Hoban. "Our only criterion is that you can't be covered by insurance." Of late, unfortunately, this has resulted in more patient need than can be served. "Most people pay between \$10 and \$15 for a visit that it costs us \$100 to provide."

Like, Christ Community Health Services, FHPC had a rocky start. As its founder, Hoban says, she tried to start the organization three times before it actually got off the ground. But once it got started, the patient load far exceeded projections. "When we first started out, we thought we would see somewhere between 500 and 1,000 patient visits a year, but now we are upwards of 7,800 patient visits a year." The resultant increased need for volunteers to feed the core of its program has engendered an energetic and creative volunteer recruitment program. Using trade publications, Facebook, wine tastings, and partnerships with local hospitals and other health-related organizations, FHPC is in constant recruitment mode.

Recently, when it became overrun with chronic-care patients, FHPC faced the possibility of having to suspend its services to new patients. "It was a crisis, and we had to find new providers. So I went to the head of the primary-care practice at the local hospital and built a small plan that has resulted in eight more doctors," Hoban says.

Here's how we did it: The hospital has several physician practices. What we found out is that for the first two years, when a physician joins that practice, they're on salary. After that point, they're on a productivity type of a reimbursement, [which is] very common for physicians. So we said to them, you know, while they are on salary, their practices aren't particularly busy. They wouldn't lose any money if you encouraged them to come over here on work time, and it would still allow them to build up their practice, and it would keep people out of the emergency room; it would be a win-win situation for everybody. And at the end of two years—after they go on their other type of reimbursement—if they still want to volunteer here, that's great, but they don't have to. But wouldn't it be a wonderful community service

if you let your new docs come over here for three hours a month? And they agreed to that.

It's really no skin off the hospital's nose, because it's not that those practices are full to begin with. And it's no skin off the docs' nose, because they're not doing it on their time off, you know, they're doing it during work time, but it does make a huge difference in terms of the community, and in terms of access to care, and in terms of clogging the emergency rooms with people who don't need to be in the emergency room.

Of course, bringing on new doctors has created the need for additional nurses and space. Hoban says that the clinic has a donor that is willing to kick \$1 million into a capital campaign for a new building, but the organization really needs \$3 million, and the time, she says, is not right to launch into such a project.

The clinic's fundraising has not suffered to date, but Hoban says she is holding her breath. What's her trick for managing during tough times? She gives the board a deficit budget.

At the six-month mark of our budget year, which was in December, we looked to see where we were, because we had projected a significant deficit budget for this year. We almost always have a deficit budget going into the year, because I'm very realistic. I'm very conservative when it comes to income projections and very liberal when it comes to expenses. So I always want to project the worst-case scenario budget so that there will never be any surprises for the board. "So here's the worst-case scenario: can you stomach this?" That's my approach. So maybe that's our contingency plan. Every year, in our budgeting process, we present the worst-case scenario budget, and we never have a deficit that we can't cover with our reserves.

When we looked at things in December, and then in January, and now in February, we

are shockingly still in the black for the year. We don't expect to be at the end of the year; but we also don't expect to be anywhere near the deficit that we had projected. So we don't really have to implement any kind of draconian measures at this point.

Bi-Lingual International Assistant Services

St. Louis, Missouri

On the other hand, Bi-Lingual International Assistant Services (BIAS) of St. Louis, Missouri, entered this era in dire

straits. The six-year-old organization was founded by the CEO, Julia Ostropolsky, who watched her own grandparents struggle with the complexities of aging in the United States as non-English-speaking Russian Jewish immigrants. Ostropolsky describes the work of BIAS as offering mental health, social, and advocacy services to elderly, disabled, and new Americans in a culturally and linguistically accessible way. According to Ostropolsky, "We are cultural brokers providing



Julia Ostropolsky reports that the organization will be lucky to receive even a third of what it received in funding last year.

services with deep understanding and appreciation for consumers' cultural backgrounds and individual life experiences. Most of the agency's consumers are women of ethnic and racial minorities."

The agency is built on the model of home-based, integrated, targeted, case management services whose efficacy has been well proven for very poor and marginalized families and individuals. Recognized for its innovative practice with the Bosnian, Kurdish, Afghani, and Russian Jewish communities, BIAS was one of 11 organizations recognized by the Commonwealth Fund. Still, Ostropolsky reports that the organization will be lucky to receive even a third of what it received in funding last year. Ostropolsky lists the

ASC Foundation Suspends Grantmaking

For Bi-Lingual International Assistant Services (BIAS), grantmaking cuts in the economic downturn have hit the organization hard. In this letter to grantees, the Adorers of the Blood of Christ—U.S. Region explained its need to rescind funding.

“Due to the downturn in the financial markets and its impact on the Adorers of the Blood of Christ—U.S. Region, ASC Leadership and the ASC Foundation Board have decided to suspend all grantmaking activity until further notice. The Foundation has received 233 Letters of Inquiry this year, but because of the financial situation, the Foundation will not be able to invite nor fund proposals submitted by the inquirers.

“Over the course of the past five years, it has been the Foundation’s distinct honor to learn about many worthy agencies whose missions and works dovetailed with the values and social priorities of the Adorers. Grantmakers do not accomplish anything on their own. Rather, it is through a shared vision and a true sense of partnership that positive changes in our communities occur and a more just society achieved.

“It is our hope that this is the biggest tremor you will experience during the current economic turmoil. The ASC Sisters and the Foundation Board wish you the best as you continue to effect social change and work for justice and peace.”¹

Unfortunately, the closing of the Adorers’ doors was not the “biggest tremor” for BIAS. A \$200,000 grant that it had lobbied for in the state legislature was put on hold indefinitely, and other funding is seriously in question. As a young and small organization, this group is frail but determined. The small staff cut its paid hours and is volunteering time, but the organization’s rent has not been fully paid in months.

¹Adorers of the Blood of Christ Web site (www.adorers.org/ascfoundation.aspx).

cuts the organization has made. One foundation it had depended on (ASC) closed altogether. “What [do] I worry about?” Ostropolsky says.

Without our assistance and tutoring, they are likely to never become U.S. citizens, lose SSI [Social Security Income] and therefore have no income at all. What keeps me up at night is knowing that once we heard that our program was held up, several [already naturalized] older adults from Russia and Afghanistan came forth and gave of their limited income [SSI] donations in the total amount of \$300.

Tears came to our eyes as we took the money, knowing that those who gave it could hardly have enough to survive. What keeps me

up at night is the realization that I am ultimately responsible for the well-being of the organization I founded, and the team that trusts me and volunteers their own time to meet the needs of the consumers we serve.

Instead of cutting the program, I held an emergency meeting and invited staff to volunteer as much of their income by taking a pay cut as they can afford. All volunteered, because in a small agency such as ours, none would want to see their colleague go, especially at such difficult economic times. We are known as “workaholics”—people who put clients first—and [have] a great, forgiving and supporting family of Vietnamese, Russian, Bosnian, American, Chinese, Afghan, Hispanic, Japanese, and Jewish staff. It took years to hire the most dedicated, expert group of people, and now I am very worried that I may be losing my ability to ensure their funding.

Ostropolsky reports that she cut her own salary by \$10,000 without permission from the board, which wanted to know why she did not ask first.

Editors’ note: *Since the initial interview from which this material was written, BIAS was informed that the program it had maintained with all its savings funds would receive state funding, but with severe cuts from the original award.*

Jersey Battered Women’s Service

Morristown, New Jersey

With 23 vigilant souls on the board, Jersey Battered Women’s Service (JBWS) has a lot more wiggle room, to say the least. A 32-year-old \$3.5 million organization in the second most wealthy county in New Jersey, this organization until recently boasted a year’s worth of reserves in the bank, though it has recently fallen below 10 months’ worth. It has been on a gentle growth trajectory for a few years, mostly because of natural



The Violence Prevention Context

Funded through the Victims of Crimes Act, Jersey Battered Women's Service's major form of federal assistance was cut this year from \$625 million to \$550 million by Congress.*

In 2008 the Family Violence Prevention and Services Act budget was slashed by \$2.1 million. Congress has capped the Victims of Crime Act, a federal grant program funded entirely by fines and penalties paid by offenders and without taxpayer dollars.†

*Megan Twohey, "Federal Funding Cuts Force Agencies to Turn Away Victims of Domestic Violence," Chicago Tribune Web Edition, March 28, 2008, (www.cindysmemorial.org/downloads/Trib_032708.pdf).

†Mary R. Lauby and Sue Else, "Recession Can Be Deadly for Domestic Abuse Victims," the *Boston Globe*, December 25, 2008 (www.global-sisterhood-network.org/content/view/2242/59).

expense increases but also because it has gradually added programming. The level of JBWS's reserves, says Executive Director Patty Sly, is gauged against the number of facilities that it has and the entirety of the organization's vulnerability to unexpected problems.

The organization's mix of funding is approximately 30 percent from various government sources, 40 percent from foundations and corporations, and 30 percent from individuals. JBWS heeded advice about the need to diversify its funding base, though the staff now says that given the current circumstances, the strategy does not protect the organization as well as it would have liked. The fact is that many of the sources in that diverse base have shown decline. The state of New Jersey has a "tremendous deficit," Sly says, and while JBWS knows some of what to expect in terms of state budget cuts, it doesn't know all of it. JBWS was just notified that its most recent grant awarded by the state will not be renewed when its funding cycle ends in June. The annual appeal came in at 18 percent less than the previous year. Over the past few years, United Way funding has declined and in 2009 continues to slide. JBWS is still bracing for the results of each

of its foundation requests but expects declines there as well. Each of these sources, of course, has its own reporting system, taking up the same amount of time on lesser money for application, measurement, and reporting.

Sly reports that JBWS is exploring where to cut and improve efficiency. Although it knows that staff salaries have to be considered, right now it depends on attrition and benefit reductions, but "we are really evaluating that monthly."

So what of the reserves? Sly says that at first the board did not want to use them. "Some board members said, 'We have to save them for a rainy day,' and others said, 'But isn't it raining?'" The board finally decided that the organization could use the reserves, but only in concert with a cost reduction plan and a multiyear plan to rebuild the reserves. She believes that the board was ready for

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this dialogue, though, because it created its strategic plan this fall and for the first time "it reads like a protective rather than a growth-oriented plan. No other plan we've done has ever read like that."

Domestic and Sexual Abuse Services

Three Rivers, Michigan

In the same field but in a much poorer area is Domestic and Sexual Abuse Services (DASAS) in Three Rivers, a small town in rural southwest Michigan. With the highest

unemployment rate in the country, the state has its own budget problems, which trickle down to nonprofits. Characterizing the organization's budget trend over the past five years, Executive Director Mary Lynn Falbe says, "Our expenses have gone up while our income has gone down." Over these five years, there has been a steady turnover of executives following the departure of a



longtime director who had strongly influenced the organization. Even as the number of women being served increased to almost 300—"and that is not counting the children"—the funding declines continued. United Way funding was one of these decreases. The excruciatingly Michigan nature of the story behind that situation clearly exhibits why geography is important.

"One of our large employers in Three Rivers is American Axle [& Manufacturing], and they went on strike last year," Falbe says. "They are usually the largest giver to United Way. So when they were out of work, the pledges did not come in, so our funding was cut by almost a third." Ironically, so were the wages of American Axle workers, who went back to work after 87 days and after agreeing to a one-third pay cut. Originally, a 50 percent pay cut was proposed. American Axle is a major supplier to General Motors, which now faces bankruptcy and massive restructuring.

Last year this organization experienced a small miracle. It was facing a year-end \$44,000 deficit.

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But suddenly, a bequest of which the organization had no institutional memory was released by the IRS. "Now, as a result of that and another gift we had not expected, we have been able to fix the roof and lift salary freezes, and we have a surplus of \$30,000."

Every day, DASAS collaborates quite a bit, partly because working together is natural in such a small community and partly because it must do so to survive. DASAS not only works closely with other domestic violence programs throughout Michigan to ensure the safety of the families being served but also shares tasks with other local nonprofits. For instance, it rents space from Head Start for its administrative office for \$50 a month while also providing an awareness program for the parents of children in the

program. The organization is strategic about where it focuses its programmatic attention. "Our focus is on advocacy," Falbe says. "We don't have therapists, so we use other community resources for those needs."

Today, this small organization's mix of cash funding is 5 percent from the United Way, 20 percent from donors (individual and businesses), 10 percent from foundation grants, and 60 percent from federal and state funding.

CJE SeniorLife

Chicago, Illinois

"In terms of the economy, we can talk about our sources of funding as having been impacted and squeezing us from one direction," says Mark Weiner, the CEO of CJE SeniorLife in Chicago, Illinois, "but we have to also talk about what has happened to our clients, our residents, and our customers. People are entering our systems with a higher level of acuity—more intensive needs and less ability to pay. They are applying for financial support quicker than they have in the past, and that places in question the issue of how to balance our payer mix in the future. We try to make sense of it all and to minimize cutting into our core services."

CJE SeniorLife is a \$54 million organization with 600 full-time and 150 part-time employees. Previously CJE stood for the Council for Jewish Elderly. While the organization still identifies strongly with its Jewish values, CJE provides an impressive variety of health, housing, educational, and other services to elderly Chicagoans of all stripes.

Weiner has been at the organization for five years, during which time it has grown from a \$38 million annual budget to its current size, but prior





to his arrival, CJE had already been in a fairly steep climb. “The previous leadership,” Weiner, says, “built this small social-service agency into a very complex and diversified elder-care organization.” But as with almost any type of rapid growth, important steps to support that growth fell off the radar. Organizational infrastructure, particularly for collection of receivables, lagged behind the organization’s overall trajectory, and CJE ended up in debt. These management problems have since been resolved, but now the environment is pressing in.

CJE is being affected not just by cutbacks but also by flat-rate reimbursements and late payments by government sources. These days, borrowing on its credit line costs the organization approximately \$60,000 a year. But the organization has also seen a decline in fundraising from individuals and foundations. Among individuals, CJE’s fundraising has decreased by about 25 percent, and contributions from foundations may be headed in the same direction. Weiner cites the fact that one foundation from which it has received \$100,000 in past years simply closed its doors.

In public funding, Weiner has plenty to track, and some of the items are very high stakes.

The real problem for us is Medicaid with the state of Illinois. In terms of what the state pays nursing homes, we’re 50th out of 50 states. Although we recently received a small rate increase from the state, every time we have a Medicaid bed filled, the difference between what the state pays us and the true cost is \$90. We have a 240-bed nursing home that is about 60 percent Medicaid. That puts a real burden on the nursing home as well as our entire system. We would just be happy if they paid us.

And we’re also depending upon the state of Illinois for two other things. We have a naturally occurring retirement community project site that came originally from federal funding. That transferred over to state funding. We

believe we’re going to get continued funding from the state for that project, but there’s no certainty of it. And then we have something called MCCP, which is a managed community care program, in which we provide sort of a social model to keep the poorest of the poor older adults at home and in the community. On a regular basis, MCCP staff members serve about 550 people per month, and we provide them up to 10 services, from home-delivered meals to transportation to adult day services to personal care assistance. We’ve been a pilot program with the state of Illinois now for 14 years, and the program is at risk for long-term funding. Now, that is really very problematic for us, because we are a safe haven for these people, and we are providing the best of managed care in the community to keep these people out of nursing homes. So we’re continuing to get funding for them now, but there’s no certainty of continued funding. So those people become real concerns for us.

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CJE is an affiliate of the Jewish United Fund/Jewish Federation of Metropolitan Chicago and is required by it to develop a balanced budget each year. This means that the organization does not have reserves per se, but it does have a significant endowment program, the corpus of which has eroded because of the current economic environment.

“Recently at a meeting with the leadership of the board, the topic of how we were going to achieve a balanced budget next year came up, and this led to a discussion of possible use of endowment principal,” Weiner says. “Historically, we have tried not to invade principal, but the chair of our budget committee made the point that these are extraordinary times, and we may need to. Our major objective is to protect the core of our business and, to the greatest extent possible, guard

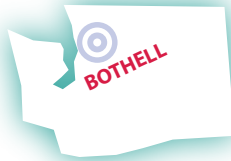
against any lessening of our ability to deliver those services to our community.”

CJE’s new budget for the year, which starts July 1, includes staff reductions, and right now these cuts are quite limited, targeting just 20 positions out of 750. With these reductions, Weiner does not anticipate using endowment principal, but he may reconsider it later as a contingency option.

Northshore Senior Center

Bothell, Washington

In Bothell, Washington, the 37-year-old Northshore Senior Center, which has a \$3 million budget, now has to consider multiple cuts. Lee Harper, the relatively new executive director, reports that starting in July, the organization began scenario planning, estimating that the cuts for 2009 might amount to \$200,000. She approached this planning in part as a way to familiarize and engage the board more fully in agency finances.



The organization now does business out of \$8.5 million worth of facilities but faces what could be a massive cut in operating funds.

We spent months talking about the different areas where we could increase revenue, where we’d need to decrease expenses, what an end budget might look like. I asked the board to get involved with advocacy, and they did! They went down to the county council hearings, and they wrote letters. They really stepped it up, and we ended up getting \$100,000 of it back. But now, at the legislative level, we may be faced with anywhere from a 10 percent to a 50 percent cut, and another \$100,000 will be disappearing on top of that at the end of the year. It’s pretty overwhelming.

Like CJE’s Weiner, Harper has noticed an increased call for financial support for clients, which will reduce earned income as well.

Meanwhile, this is clearly an organization with strong local support. After creating a junior taxing district, the voters elected to tax themselves to build the senior center and then also to build a health and wellness center for local seniors, so the organization now does business out of \$8.5 million worth of facilities but faces what could be a massive cut in operating funds. The organization has unrestricted reserves that equal about one-tenth of the year’s operating budget.

Since she is keyed in to local capacity builders and a supportive community, Harper is making use of available advice. She is confident her center will survive in spite of the wrenching changes that lie ahead.

Editors’ note: *At the time of this writing, Harper reports, “Now, at the legislative level, we are facing a \$900,000 funding cut for adult day health and transportation (a 90% cut) and another \$100,000 will be disappearing on top of that at the end of the year from the county.”*

Higher Achievement

Washington, D.C.

Higher Achievement is a 33-year-old organization that provides rigorous year-round academic enrichment to middle-school students in the Washington, D.C., area. But the organization’s age and history comes with a caveat: in 1998 it was pretty much pronounced dead. It ceased operations; and at the time it was \$300,000 in debt. Still, Maureen Holla, a volunteer in the program when it went under, did not give up hope, and in 1999, as its new executive director, Holla reopened the program.

Since mid-2006, Richard Tagle, the current executive director, has been at Higher Achievement, and at that time the organization had established four sites in Washington, D.C., and was about to launch a fifth in Virginia. “When I came in, the organization had a budget of \$1.6 million and a staff of 18. A



Investing in Youth

Higher Achievement is one of several youth-serving organizations that has been tapped by funders for expansion because of some combination of existing outcomes and promise. Foundations such as the Edna McConnell Clark Foundation and Atlantic Philanthropies have made large investments in several such organizations around the country, not only paying into program evaluation systems but also helping to build other basic systems and business plans for disseminating the program model. Both foundations have involved other foundations in these efforts, which are designed to build on the effectiveness of programs that have already distinguished themselves in terms of their ability to improve the lives and life prospects of young people. A local foundation grant officer saw the potential; she referred Higher Achievement to the Atlantic Philanthropies.

lot of our funding was garnered from local foundations and corporations.” Since Tagle took the helm, Higher Achievement has expanded into Baltimore.

In the two years since, Higher Achievement’s budget has grown to \$4.7 annually, but some of this growth is allocated toward onetime costs associated with what was originally an aggressive replication plan as well as a longitudinal study. First priced at \$20 million, that replication strategy has now been scaled back to a more measured expansion plan, priced at \$11 million. The difference between the two is the number of sites to be established by 2020 and the nature of the partnership agreement between Higher Achievement and the sites. The sites will now be required to invest more cash in implementation. In terms of the organization’s base program, Tagle estimates that approximately \$2.3 million is slated for direct service at each fully scaled affiliate, and the rest is meant to capitalize expansion to other cities.

Higher Achievement has experienced a

downturn in revenue, but also success in exploring new avenues. These triumphs and setbacks come in bits and pieces. Over the past three years, Freddie Mac has contributed \$250,000 a year; Fannie Mae had been giving \$50,000, but this year gave none. And individual and foundation funding to the base program has probably decreased 20 percent to 25 percent, but on the other hand the organization has managed to offset that with new corporate contributions (mobilized by the board) and some newly available Department of Education money as well as increased attention toward public revenue streams, such as Title I and 21st Century Community Learning Centers.

During the economic crisis, Higher Achievement has experienced its dramatic moments.

We needed a little over \$1 million to finish the funding for a multiyear study we were doing on our outcomes, and the Atlantic Philanthropies basically introduced me to the Picower Foundation. I had had a number of meetings with them, after which they asked me to submit a proposal, and we got approved for a \$750,000 grant, so I went away on vacation feeling good.

I was going to Asia. I was in a hotel room

Greater Washington Nonprofit Leaders Urge Fannie and Freddie to Continue Social Investment

“Changes at Fannie Mae and Freddie Mac have caused anxiety among leaders in the nonprofit and the philanthropic communities in Greater Washington. As our largest corporate philanthropists, the two mortgage giants invest more than \$40 million annually in the local nonprofit community. For decades Fannie and Freddie have partnered with local agencies to help families, revitalize struggling communities, and make [these communities] a better place to live. A sudden decline in investments from Fannie Mae and Freddie Mac would be devastating to the region. . . . Hundreds of area nonprofits are current investment partners of Fannie Mae and Freddie Mac. . . . The two companies’ grantmaking is critical to our region, but so is their overall leadership.”[†]

[†]Joint statement of the Nonprofit Roundtable of Greater Washington and the Washington Regional Association of Grantmakers, September 11, 2008 (www.nonprofitroundtable.org/images/fanniefreddiejointstatement.pdf).

in Hong Kong when I saw I had a voice mail, and basically it was a message from Barbara Picower saying that their endowment money—all \$1.2 billion of it—was invested with [Bernard] Madoff. The foundation would close. She was very sorry. My response—all alone in my hotel room in Hong Kong—actually drove the people in the next room to come knocking to see if I was OK.

And of course I had based other asks on this funding coming through, and so of course this would cause them to look at our requests differently. It was tough.

Higher Achievement is always measuring risk. “When we opened Baltimore, we knew that we had enough money for 24 months, but it’s a risk,” Tagle says. “We have a whole document that looks at the potential risks of opening a new site. There are also risks associated with enlarging staff and in putting money into systems and procedures in

Higher Achievement is always measuring risk. “The board and I are in constant conversation.”

preparation for expansion when funding is in the state that it’s in. So the board and I are in constant conversation—much more so than previously. We are all trying to gauge the timing, because the economy is going to turn around sometime, and we want to be right in the line of view of people with money when that begins to happen.”

Tagle admits to some nervousness, but in general, Higher Achievement is in good shape, with a healthy pot of reserves, expectations of an operating surplus for 2009, and a strong base program that Tagle says is being protected from any changes in the organization’s national strategy. “It’s most important for us to deliver great results for our scholars. Everything else flows from that, so it’s important that staff does not become distracted.”

San Jose Repertory Theatre

San Jose, California

The San Jose Repertory Theatre in San Jose, California, is one of the anchoring cultural institutions of San Jose’s downtown core. Along with many other live theaters in the country, it has struggled with its business plan of late, and the business plan has everything to do with knowing and addressing the interests of the local audience.

“This is not a ‘roadhouse’” says Christa Stiner, the organization’s chief financial officer. “When we present a show, it is almost always ours, self-produced.” Stiner is part of a reconstruction team that took over the theater after the city, which owns the building housing the theater, intervened in the institution’s discussions about possible closure. “That’s when the city of San Jose said, ‘We can’t afford to have this theater go dark,’” Stiner says. “They came in with a \$2 million line of credit, \$550,000 of which immediately went to pay past-due payables.” Another \$250,000 has shored up declining donations. The line of credit has given the institution some breathing room within which it has reorganized its cost structures and revitalized interest among its audience and donors.

Despite its progress, the economic downturn comes at a difficult time for the theater. And Stiner has been “visited” by a local ghost that stands as a kind of cautionary tale for theatrical risk taking and good management.

In December 2008, the city’s 75-year-old American Musical Theater, which had nearly twice the annual budget of the repertory theater, went bankrupt and closed. “I looked at their 990s online at GuideStar—just to understand what happened,” Stiner says.



They had been running some pretty dramatic deficits. They were in a negative asset position to the tune of \$2 million, so they had been missing their revenue goals for quite some time. But what pushed them over the edge was a partnership. They had sent \$225,000 to a coproduction partner that used the money for its own operating expenses rather than to build the show, so not only were they out the \$225,000, but they did not have anything for that slot in the season. They didn't have the money to refund subscribers or single-ticket buyers: a debt of approximately \$800,000. The whole loss was reported to be somewhere around \$1.7 million. They just closed.

But as they try to avoid a similar fate, the administrators of the theater have not been abandoned. The finance department of the city monitors the theater carefully, reviewing its financials on a monthly basis. The theater's finance committee has "some of the brightest brains in Silicon Valley on it," Stiner says. "These people are very

engaged. They know how we got into trouble in the first place, and they are set on making sure that we get out of trouble now." Still, there is no doubt that the theater is walking a fine line.

Right now, the theater has cash flow concerns, debt of \$2.7 million, and an endowment of \$1 million.

Very much in wait-and-see mode, Stiner reports that subscription renewals have decreased about

"We could earn our way out of a large chunk of our debt."

8 percent compared with the previous year (which represented a contraction over the prior year). Luckily, says Stiner, the theater had projected a low enough goal so it is not yet far off its budget, but over the coming months, the subscription component will be a high-tension waiting game. Contributions have also declined, but at the lesser rate of 9 percent.

On the hopeful side, the theater is getting ready to stage the first-ever live performance of Khaled Hosseini's *Kite Runner*, for which tickets are

Adapting for Survival

San Jose Repertory Theatre Achieves the Next Level In Its Business Development

San Jose Repertory Theatre's business business model has successfully incorporated industry best practices into its financial accounting, reporting, and board oversight to keep the organization in the black.

As it moves toward recovery from a fiscal deficit that nearly closed its doors, the San Jose Repertory Theatre has achieved positive results. Recent financial reporting shows that the organization has used far less of its credit line than expected, it is paying back the amount sooner than planned, it has moved its annual operating deficit from \$2.4 million in 2005 to \$1.1 million in 2006—a reduction of more than 50 percent in only one year—and it has continued to maintain almost identical revenues and support during that time. The Rep credits its improved business model, which has incorporated industry best practices in financial accounting, reporting and board oversight. "This is an important first step on our road to financial health," said Nick Nichols, the managing director of the Rep. "There is still much work to be done, but these results show tangible and meaningful progress. They also show that our new business model and the operational changes that the trustees and management have put in place are valid and are moving the organization in the right direction. Thanks to the dedicated work of our Board of Trustees and a re-energized Emeritus Board, we are generating encouraging results. We have significantly improved our business operations while continuing to fulfill our artistic mission and producing work that meets our community values. This is, indeed, the Rep Renaissance."¹

¹San Jose Repertory Theatre press release, March 26, 2007 (www.sjrep.com/downloads/2007/pressreleases/reducesoperatingdeficit_pr.pdf). According to audited financial statements, total revenue and support for FY 2006 were \$5.8 million, versus \$5.9 million for FY 2005, and total expenses for FY 2006 were \$6.8 million, versus \$8.2 million for FY 2005. This represents a net reduction in year-over-year expenses of \$1.4 million, or 17 percent, versus almost identical year-over-year revenue. Ticket sales remained constant, at \$3 million. In FY 2006, contributions decreased to \$1.8 million, versus \$2.2 million in FY 2005. But revenue from auxiliary services increased to \$538,000 in FY 2006 over \$275,000 in FY 2005: a jump of nearly 100 percent.

The Perilous Edge for the Arts: American Musical Theatre of San Jose Folds

"The end was as dramatic as anything the company has staged. Monday, American Musical Theatre of San Jose, the South Bay's longtime primary presenter of Broadway-style musicals, announced that it was going out of business—immediately—in the middle of its 74th season.

"All future ticket sales ceased. Thirty full-time staff members were laid off, and its extensive outreach programs in the schools were closed. The company was filing for Chapter 7 bankruptcy, chief executive and Executive Producer Michael Miller says, and the remaining two of its shows were canceled, though he was making arrangements for two touring productions—'Chicago' and 'Avenue Q'—to play their dates in January and March.

"The news sent shock waves throughout the theater community. With a \$9.8 million budget and 16,500 subscribers, the theater was one of the region's larger arts organizations and the primary tenant at the 2,600-seat San Jose Center for the Performing Arts, along with Ballet San Jose."[†]

[†]Robert Hurwitz, "American Musical Theatre of San Jose Folds," the San Francisco Chronicle, December 6, 2008.

selling well, and will follow up that show's run with the musical production *The 25th Annual Putnam County Spelling Bee*. "If that does well," remarks Stiner, "we could earn our way out of a large chunk of our debt. We could run a significant surplus even at 60 percent capacity, and that's my best-case scenario."

"The worst-case scenario is that nobody will want to see either production, and we will have spent our deferred revenue, and our line of credit will be fully extended. . . . It's not even that we will have made bad business decisions, but we will have squandered everything we have done in the past three years to turn the place around."

But Stiner points to the fact that the theater's recent gala featuring Hosseini as a speaker at

a sit-down dinner grossed \$125,000 and netted \$95,000. "In this economy, to have such a success is promising. Our board stepped up, and they are hugely energized."

While the theater is in its current position, Stiner says it must save wherever possible. So it has tried to reduce staff costs while not crippling its ability to produce. This meant a recent temporary across-the-board reduction of hours from a 40-hour workweek to a 35-hour one. "Everyone took the pain equally, and nobody got laid off," reports Stiner. "Morale was good for the three months that we cut. There were no empty cubicles."

Editors note: *Since the time of the original interview with Stiner, ticket sales for The Kite Runner have been strong, and daily totals have increased rather than dropped off. The theater raised \$275,000 in restricted funding to produce The Kite Runner, and this campaign succeeded in re-establishing relationships with lapsed donors and strengthening relationships with current donors. Increased ticket sales have brought a new audience to the theater during the height of its subscription renewal campaign. "Based on the nightly standing ovations," Stiner says, "the audience likes what it sees, and subscription renewals are exceeding the prior year's. In addition, individual donations are keeping pace with last year, both in numbers of contributors and dollars contributed. But aside from the success we are seeing in earned revenue, more cuts are planned in order to increase headroom on our line of credit with the city."*

The Performing-Arts Context

The recent report *The Recession & The Arts: The Impact of the Economic Downturn on Non-profit Cultural Groups in New York City* captures a snapshot of the cultural industry's current climate.¹ It found that among 100 responding organizations, 78 percent have reduced their budgets or plan to do so; 50 percent plan to lay off



employees; 69 percent will defer new hires, and 45 percent plan to cancel or postpone programs within the next year.

Nearly three-quarters of performing-arts organizations, 86 percent of which are located in Manhattan, indicate that they have reduced their budgets or plan to do so. Among 50 organizations, some of which have staff of more than 300, 38 percent intend to lay off employees, and 64 percent plan to defer new hires within the next year.

Although only 21 percent of performing-arts organizations have postponed their fundraising, 61 percent have canceled or postponed moves or capital improvements, and 34 percent have canceled or postponed programming.

Eighty percent of arts service organizations plan to reduce their budgets, 70 percent plan to defer new hires, and 50 percent intend to lay off employees within the next year. Only 14 percent anticipate postponing fundraising; but 60 percent will cancel or postpone programming. An additional 67 percent plan to postpone or cancel moves or capital improvements within the next year.

For some cultural groups, the strain has already reached a crisis point. Since September, several arts institutions have closed or nearly closed, including the Baltimore Opera Company; the Bead Museum in Washington; Santa Clarita Symphony in California; Opera Pacific in Santa Ana, California; and the Museum of Contemporary Art, Los Angeles.²

Nonprofits Are Complex Adaptive Systems

One of the interviewees for this piece summed up the findings. “My ability to predict has been shattered,” she says.

Management theory has recently progressed to the point of acknowledging that continual rapid change is no longer an aberration and that we must take it as a given. If they want to remain relevant and viable, nonprofits, along with most other organizations, must now function at the edge of the present and the future. They must not

only adapt to their environments but also shape these environments to create productive change. Strategies must be fast moving, flexible, and continuously experimental. The nonprofits behind these strategies must also be well informed and influential, and this requires a neural (sensing) and action network that very likely extends well beyond the strict boundaries of an organization.

U.S. nonprofits have entered the twenty-first century full force. It is virtually impossible for us to predict the shape of our complicated nonprofit markets even a year hence.

So how does this play out among our nonprofit interviewees? For many of these organizations, agility, continuous inquiry, a willingness to reposi-

“My ability to predict has been shattered.”

tion, and group analytical capabilities have been put to use as these nonprofits face fast-moving losses and opportunities that have scuttled or seriously delayed longer-term plans. As money falls away and new opportunities emerge, all our interviewee organizations have tried to find a new order within the chaos.

In these stories, we also hear a great deal about these organizations’ persistence in finding a way forward—sometimes even after repeated failures.

Where they were when the downturn hit and the interface between the internal capacity of the organization and the external condition of the environment matters. To illustrate, we are struck by the stories from Christ Community Health Services and the Bi-Lingual International Assistant Services. Both organizations are the product of personal sacrifice and drive, but they lie on different points of the development curve. When we are eager to pass judgment on whether an organization is fit enough to continue to exist, it’s worth noting the effort it took to get the more mature group, CCHS, off the ground. In the organization’s first years, key people took second mortgages on their homes to ensure the continuation of services

Stepping out on the Ledge

Sara Roscoe Wilson, the executive director of Nonprofit Management Solutions in San Diego, California, recounts her board's experience in facing the recession.

I invited our entire board of directors to meet me out on the ledge, and the board members came. Every member of our board stepped out on that ledge, proving that each one indeed intended to be part of our response, our solution, our plan for the future—whatever that turned out to be.

Sharing the ledge with your board of directors can be an exhilarating experience. It forces some of these committed volunteers out of their comfort zone, especially those who may prefer the terminal politeness that characterizes many board meetings. I guess the environment or culture established on the “ledge” varies among organizations, but the ledge is characterized by some commonly accepted ground rules. Nothing is out of bounds on the ledge. Nothing is so sacred it can’t be said. Respect, honesty, and generosity flourish on the ledge. No harm, no foul, and especially no crying on the ledge. It is amazing how clear the air is when you put every figure, every projection, every assumption, on the table in the absence of spin.

Believing that spending time with board members on the ledge has a special quality, we took pains to encourage thinking about flexibility for both short-term impact and long-term sustainability. We worked together to reduce (or eliminate) every line item in our budget that was not mission critical. We established real-time cash flow projections, generated contingency strategies with trigger mechanisms, adopted a short-term, bare-bones budget, and agreed to meet on the ledge again the following month to prioritize our core service goals.

While it doesn’t make hard management decisions and difficult choices that change lives easier, there is value in the clarity and honesty on the ledge, especially in times of crisis, when emotions run high and panic can cloud vision and judgment. Inviting board members to the ledge creates an opportunity that shouldn’t be wasted. Board members somehow feel more engaged on the ledge. Ledge-made commitments are unusually binding and more often fulfilled. The invitation to join you there removes all doubt about board members’ intrinsic value to the organization, which helps ensure future support for your ability to lead from the ledge.

to a community acutely in need. CCHS has now progressed to become a well-run, respected, and well-connected health delivery system. BIAS, on the other hand, still experiences vulnerability that is associated with a small, new organization—and that vulnerability comes at an uncomfortable moment in the funding environment. CCHS can

reasonably expect to continue to grow, while Bi-Lingual’s projected budget for 2009 is one-third the size of its budget in 2008. We know better than to predict a final outcome for BIAS, however. Even in the early story of Higher Achievement, the image of the phoenix rising from the ashes comes to mind.

The interruption of even well-laid plans speaks to the need for organizations to know their priorities and to hold them sacred in decision making. In a constantly changing environment, it also suggests the need for fast-paced and dynamic strategic thinking over periodic strategic planning. Higher Achievement, which had previously closed up shop during a difficult period and then reopened a few years later, laid out a bold expansion and replication project. This was backed by key funders who were impressed by Higher Achievement’s extraordinary outcomes. With the wisdom of foresight, key staff and board at Higher Achievement were aware that this scheme could harm the base program in the Washington, D.C., area if they did not protect it. So the organization guarded its home programs from the risks of a build-out that it had every reason to believe would progress somewhat as conceived. This was smart thinking. The current scale-back and recasting of the expansion has aligned well with new economic realities.

And as for reserves, only two of the 10 organizations interviewed for this article had reserves of nearly the amount prescribed or more. Reserves give these organizations a margin of error and more time to beat the bushes for additional resources before cutting an important program, service, or staff member. Three large organizations (only two of which have been discussed here) had no reserves or only 30 days’ worth. All three were highly contracted: large safety-net organizations. In one case, an organization that provides behavioral health services, is located in a state where having a reserve is disallowed but

Critical Variables for Nonprofit Sustainability

Below is the *Nonprofit Quarterly's* current list of key variables affecting nonprofit sustainability during the 2009 crisis. Feel free to suggest others by emailing us at editorinchief@nonprofitquarterly.org.

Organizational Preparedness

- The ability of a leadership team to mobilize and replan quickly as potential losses and opportunities present themselves
- The degree to which an organization is valued by influentials
- The existence and size of reserves
- The existence and size of an organization's endowment and the ability to tap this endowment
- The proportion of funding that is available for general operation or is unrestricted
- The proportion of budget that is allocated to fixed costs
- The degree to which assets can be sold or collateralized
- The quality and timeliness of financial information
- The organizational body mass index (or BMI); that is, how much "fat" can an organization reasonably cut?
- The degree to which "internal philanthropy" can be mustered and deployed

Geography

- The state-policy climate in organization's activity area
- The state funding climate (including the extent of general fund deficit)
- The local and municipal funding situation

- The degree to which rate reimbursement has kept pace with cost of living over time
- The timeliness of payments
- The amount of local philanthropic dollars available
- The local cost of doing business
- The degree to which a locality has access to federal funding
- The degree to which local support structures provide capacity-building support
- Whether a state association exists to provide collective advocacy
- Whether a state association exists to provide group buying, etc.

Field

- The degree to which an organization's field is in political favor with the public
- The influence of a national intermediary to provide collective advocacy
- The degree to which that network funnels resources and relays information that helps local groups adapt
- The influence of a state intermediary to provide collective advocacy
- The degree to which an organization uses local and state networks that funnel resources and relay information to help local groups adapt
- Whether an intermediary exists to provide capacity building (training, consulting, circulation of best practices on a management and programmatic level)

where contracted services are paid for before services are provided, a legislative decision that followed many years of excruciatingly slow payments to nonprofits. CJE of Chicago is also disallowed, in this case by an affiliated organization, from holding reserves. The organization's line of credit costs the organization \$60,000 a year. It is a poster child for diversifying sources of funding.

But now that CJE has more than 100 sources of funding, it must plan based on its estimates of what will happen in each of those venues. When an organization has so many sources of funding, it tends to carry the burden of "transaction costs." And when so many sources are in play, the transaction costs of monitoring each source while also sustaining losses can strain

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even the best organization's administrative and development capabilities.

This example exhibits the unique complexities of each of the interviewed organizations. Do the two domestic violence organizations discussed differ in robustness mostly because of management or because one is located in a well-off community in New Jersey, while the other is located in the most economically depressed state in the country? Lucky for the smaller program, it has used what it has—its small-town relationships—to create collaborative relationships on which some form of sustainability can be built.

These stories demonstrate quite a bit about risk taking—sometimes with a chasm on one side and achievement of mission on the other. What comes through loud and clear is that for small and midsize organizations, a lack of capitalization means that an opportunity is never a sure thing. But risks are also calculated. San Jose Repertory Theatre's story is a prime example of this.

In general, almost all the leaders of these organizations face the complexity of their situations and the risks and opportunities they pose directly. Some have spirited help from their boards; some not so much. Interestingly, none of these organizations' boards of directors, as of this writing, were reported to have acted out of panic or in a way that caused serious problems. But some executive interviewees discussed what their boards had done to contribute to the situation, while others suggested that they had little board input. All interviewees were asked to rate their boards' knowledge of the organization's finances on a scale of 1 to 10, with 10 being, "The board knows them as well as I do" and one being, "The board hasn't got a clue." Several rated their boards below 5, but a few rated them at 8 and above, or as a mix of high and low, with the executive committee being more informed than the board at large. One interviewee rated the organization's board at a 2.

I would suggest that there may be a bit of tracking among those interviewed above from board

inattention to an organization's frailty and vulnerability, but not across the board among all organizations, and this is an absurdly small sample.

There is also the variable of links to effective networks. Colorado Rural Housing Development Corporation, which is discussed elsewhere in this issue, called on national intermediaries to which it belongs to bring critically timed resources, information, and guidance that has helped the organization to reformulate its program while also providing advocacy at the federal level (see page 32).

As demands have increased and resources have decreased, is there a right and a wrong way for these organizations to continue to serve their constituents? Probably, but each situation requires a different approach that belies the abso-

For small and midsize organizations, a lack of capitalization means that an opportunity is never a sure thing.

luteness of best-practice prescriptions. And we are only a short way down what could be a long road, so we will continue to watch what works, and under what conditions.

The next installment of this series will highlight another group of nonprofits, and as the organizations discussed here make their way through the economic crisis, we will update you on their status.

ENDNOTES

1. *The Recession & The Arts: the Impact of the Economic Downturn on Nonprofit Cultural Groups in New York City*, the Alliance for the Arts, January 2009 (www.allianceforarts.org/images/EcImpactSurvey_2009report.pdf).
2. Sue Hoyer, "Recession Hits Arts Groups Especially Hard," *Chronicle of Philanthropy*, January 2, 2009 (<http://philanthropy.com/news/updates/6692/recession-hits-arts-groups-especially-hard>).

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