Weathering the Storm:
Challenges and Opportunities Facing Colorado Nonprofits During Recession
2009 Update
Early in 2009, the Colorado Nonprofit Association and the Community Resource Center published a report entitled *Weathering the Storm: Challenges and Opportunities Facing Colorado Nonprofits During Recession* to capture the effects of the economy on nonprofits during 2008. Since that time, we continued to hear about rapid change and challenges faced by nonprofit organizations. Both organizations decided to update the survey to test those assumptions.

The findings of this update survey show that the economic downturn is having a significant impact on nonprofit organizations across Colorado. Nonprofit organizations have felt a greater financial and fundraising crunch in recent months, but are still finding creative solutions to maintain their sustainability and continue achieving their important missions under very difficult circumstances.

Because nonprofit organizations are integral to the fabric of all Colorado communities, sustaining and strengthening the nonprofit sector as a whole, as well as individual organizations, is crucial. This is especially true during difficult times. We encourage our partners in the philanthropic community, business sector, and in government to ramp up their support of nonprofit organizations during this challenging time so that nonprofits can continue their critical work to improve and strengthen Colorado’s communities. Colorado’s nonprofits continue to demonstrate remarkable resiliency, but are still in great need of support and resources to meet increasing demands for essential services.

Sincerely,

Sarah Fischler  
Interim Co-Director  
Community Resource Center  

Renny Fagan  
President and Chief Executive Officer  
Colorado Nonprofit Association
Revenues declined for nonprofits in 2009.

- Almost half (48 percent) of respondents reported that their organization expects to fall short or significantly short of the organization’s revenue goals.
- Nearly 65 percent said that a major funder reduced or eliminated their support due to the current economy.
- More than 64 percent said the economy had a somewhat or significant negative impact on obtaining funding from foundations, government agencies or businesses.
- Almost 56 percent reported a time in the last twelve months when their total expenses exceeded total revenue.
- The results for each of the above factors were higher than in our survey of 2008.

Nonprofits responded to the difficult economy in various ways.

- **Collaborated more:** The economic climate had a positive impact in helping organizations to share expenses and costs (39.6 percent) and build relationships around program delivery (46.8 percent.)
- **Increased fundraising activities:** 32.5 percent increased face-to-face solicitations, 42.5 percent increased requests for foundation grants, 31.8 percent sought government grants and 27.5 percent increased soliciting board members.
- **Reduced expenses:** 28.5 percent cut back or eliminated programs, 21.2 percent cut staff pay or hours, and 15.9 percent laid off staff.
- **Used more volunteers:** 43.7 percent said they were already using more volunteers and 33.9 percent said they were considering this action.
- **Spent from cash reserves:** 23.8 percent reported accessing reserves and 15.8 percent were considering this step.
- The results for each of the above factors were higher than in our survey of 2008.

Economic impacts varied among nonprofits organizations.

- Statewide organizations were more likely to have fallen short of revenue goals, requiring a greater use of cost-saving measures.
- Rural organizations were more likely to feel financially vulnerable in the future.
- Urban organizations experienced greater increase in demand for services.
- Smaller organizations were more likely to experience financial challenges.
- Larger organizations laid off staff at much higher rates than smaller organizations.
- Smaller organizations turned away clients at higher rates than larger organizations.
- Mid-sized organizations sought collaborative relationships at higher levels than smaller and larger organizations.
- Health organizations were more likely than others to cut back on programs, reduce staff hours, cut pay, and lay off staff.
- A higher percentage of arts and culture nonprofits reported experiencing chronic financial problems compared to other groups.

The following survey results summarize the overall key findings and highlight some key differences based upon geography and budget size for the 450 nonprofit organizations responding to the survey. This summary also includes comparisons to the initial Weathering the Storm report, which was released in March 2009 and is available at www.ColoradoNonprofits.org and www.crcamerica.org. When we make comparisons, we will refer to the March 2009 study as “WTS I” or “2008” and this November 2009 survey as “WTS II” or “2009.” It is important to note that the same organizations may not have responded to both surveys. Therefore, the data presented here reflects trends in the nonprofit sector and not changes in responses by particular organizations. The surveys were electronic, with multiple choice questions, in both cases.
Impact of the Economy on Financial Health in 2009

Falling Short of Revenue Goals
This has been a difficult financial year for many nonprofits. Overall, 48 percent of respondents reported that they expect their organizations to fall short or significantly short of the organization’s revenue goals for 2009. This is up from 2008 survey by 8 percent. Only 8.6 percent reported that their organizations would likely exceed or significantly exceed their revenue goals, a decrease of 13.4 percent from the WTS I respondents who expected to improve upon their 2008 revenue goals.

Perception of Financial Health
In 2009, 20.1 percent reported being healthy and not vulnerable, compared to 16.1 percent in 2008, and 53.7 percent report feeling financially vulnerable now, compared to 60 percent. At the end of 2009, 21.9 percent said they were experiencing chronic financial problems but expect to survive, compared to 18.4 percent in 2008. One positive trend is that only 2.3 percent of WTS II respondents weren’t sure if they would survive through 2010, compared to 4.2 percent who in 2008 doubted their survival in the coming year.

Levels of Cash Reserves
WTS II respondents reported less cash reserves at the end of 2009 than they had in 2008. While about one-third of organizations continued to maintain two or three months of operating expenses in cash reserves, 8.7 percent reported they now have no reserves, an increase from the 5.8 percent who reported no reserves in 2008. The percentage of respondents reporting four or more months of cash reserves fell from 44.9 percent in 2008 to 41.1 percent at the end of 2009.

Impact on Revenues
Decline from Major Funders
Major sources of funding for many nonprofits dwindled in 2009. Nearly 65 percent of respondents said that a major funder reduced or eliminated their support due the current economy, up from 51.4 percent in WTS I. Fewer respondents expect to lose funding in 2010.
Some Organizations Made Positive Gains
Some organizations were able to turn the 2009 economic climate to their advantage and reported increases in certain revenues, especially in these areas:

- 15.4 percent — Individual donations (excluding bequests)
- 13.3 percent — Government grants
- 11.7 percent — Fees for services/earned income
- 13.5 percent — Special events

Contending with Declines in Revenue
The nonprofit sector is resilient. In 2009, nonprofit organizations actively responded to the changing economic environment. Almost 73 percent reported establishing financial contingency plans or budgets, compared with 59.6 percent who had developed such plans in 2008. Organizations said they were monitoring their finances more carefully than in the past (89.9 percent) and were communicating more with funders about the needs and the challenges they were facing (78.6 percent).

Actions to Sustain Operations
Many nonprofits experienced cash flow problems in 2009 and implemented a variety of strategies to sustain their operations. More than half of the WTS II respondents (55.8 percent) reported a time in the last twelve months when their total expenses exceeded total revenue. That is nearly 10 percent more than the 45.9 percent of WTS I respondents who reported the same problems for 2008. When asked about strategies they used to compensate for declining revenues, more WTS II respondents reported using prior year cash reserves, cutting back or eliminating programs, cutting staff hours, or conducting layoffs than WTS I respondents reported for 2008.

The Economic Downturn Engaged Boards of Directors
Many respondents agreed that the current economy caused their boards to become more engaged in many activities.

- More than 84 percent engaged in planning related to the current economy to prepare for 2010.
- More than 91 percent had discussed the potential impact of the economy on the organization.
- Over 61 percent were more engaged in their organizations (giving more time, increasing board gifts, supporting fundraising efforts).
- Nearly 90 percent reported the board and staff were working together to address the impact of the economy on the organization.
The Economy’s Impact on Organizational Goals and Objectives

Fundraising
To restore lost revenues, nonprofit organizations reported increasing fundraising activities. Almost half (42.3 percent) of the respondents stepped up their funding requests to foundations. While aggressive fundraising can be effective, this particular strategy may be less than fruitful in the future as many foundations are predicting they will have fewer funds available to grant in 2010. Organizations also increased face-to-face solicitations (32.5 percent), government grants (31.8 percent), soliciting from board members (27.5 percent), special events (24.3 percent) and e-philanthropy (23 percent).

Operations
One key positive finding of the survey is that the economic climate has spurred a greater amount of collaboration related to fiscal efficiencies - to reduce expenses or share costs. Almost 40 percent of respondents said the economy had this positive effect, an increase from the 35 percent who gave the same response for 2008 in WTS I.

One negative finding was that 46.6 percent of respondents reported that the economic climate had negatively affected keeping on track with their strategic plan.

Programs
Almost half (46.5 percent) of respondents said that the economic climate had a more positive impact on helping organizations build collaborative relationships around programs, up from 40 percent who said the same thing in WTS I for 2008.

Many nonprofits experienced an increased demand for their services because of the economy. We often report that the nonprofit sector is countercyclic to the economy, and it was certainly true this year. More than 68 percent of responding nonprofits reported increased demand for services.

As was the case with strategic plans, respondents reported that the economic climate had a significant or somewhat negative impact on keeping on track with program plans (49.6 percent) and meeting the needs of current clients/participants (43.9 percent).
Outlook for the Next Three Years

In looking ahead, the new economic climate has many nonprofits rethinking their existing services and programs. About one-third of nonprofits are reexamining their assumptions with the possibility of fundamental restructuring. Another 35.5 percent believe that they will expand services in key areas, an increase from the 26.7 percent of WTS I. Most respondents expect to stay in business, with less than one percent of those responding anticipating that they may need to close.

Specific Strategies for the Future

Nonprofits are meeting the challenges of the economy head-on. To sustain themselves in this difficult economic climate, nonprofits report already implementing or considering many fundraising and cost-containment strategies they had not used in the past.

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<thead>
<tr>
<th>Revenue Raising Strategies</th>
<th>Doing this Already (%)</th>
<th>Considering this (%)</th>
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<tr>
<td>Approaching New Funders and Donors</td>
<td>64.9</td>
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<td>Changing or Diversifying Fundraising Strategies</td>
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<td>Assessing Opportunities for Earned Income</td>
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<tr>
<th>Cost-saving Strategies</th>
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<td>Utilizing More Volunteers and Interns</td>
<td>43.7</td>
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<td>Sharing Staff, Space, or Other Resources with Another Organization to Reduce Program and/or Administrative Expenses</td>
<td>19.1</td>
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<tr>
<td>Accessing Group Purchasing or Cost-saving Programs</td>
<td>23.2</td>
<td>26.6</td>
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<tr>
<td>Using Technology to Increase Efficiencies</td>
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<td>Merging Programs with Another Organization</td>
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<th>Money Management Strategies</th>
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<td>Keeping a Closer Eye on Cash Flow</td>
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<tr>
<td>Accessing Loans or Lines of Credit</td>
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Key Findings by Geographic Service Area

The following respondents are included in the analysis related to geographic setting:

Respondents by Geographic Service Area

Note: The survey asked, “Where does your organization operate? Select all that apply.” Some respondents selected more than one area, so some items total more than 100 percent.

Key Findings by geography:

- Statewide organizations were more likely to have fallen short of revenue goals, requiring a greater use of cost-saving measures.
- Rural organizations (60 percent) were more likely to feel financially vulnerable in the future.
- Urban and statewide organizations also report experiencing higher increases in demand for services.

Financial Health

Meeting revenue goals was a particular challenge for statewide organizations in 2009. Only 34 percent said they expected to meet their goals, compared to about 45 percent for rural, suburban and urban organizations.

A higher percentage of rural and statewide groups reported decreases in individual donations. Statewide and suburban organizations were more likely to report decreases in corporate and foundation funding. A higher percentage of rural organizations saw decreased government grant funding.

Descriptions of financial health varied by geographic service area. Only 17 percent of rural organizations reported being financially healthy and not vulnerable compared to 24 percent of suburban organizations. More significantly, 60 percent of rural organizations felt vulnerable about the future, compared to statewide (39 percent), suburban (46 percent) and urban (52 percent) organizations. More statewide groups (32 percent) reported experiencing chronic financial problems than suburban or urban (24 percent) or rural (19 percent).

Fewer statewide organizations (31 percent) had four or more months of cash reserves for operating expenses than did urban (43 percent) and rural and suburban organizations (41 percent). Statewide organizations (16 percent) were also more likely to have no cash reserves, than organizations operating in rural (9 percent), suburban (7 percent) or urban (5 percent) communities.

Contending with Declines in Revenue

Statewide groups reported implementing more cost-saving measures than organizations serving other communities, particularly by cutting back or eliminating programs, cutting staff pay or hours, laying off staff or operating at a deficit. Urban organizations were more likely to cut staff pay or lay off staff than rural or suburban organizations. Suburban and urban organizations were more likely to have increased fundraising or tried different fundraising strategies than statewide or rural groups.

Program

A significant majority of organizations operating in each geographic setting reported that demand for services, programs and activities had increased. Overall, urban organizations reported the greatest increase, with 78 percent of respondents experiencing greater demand, compared to 69 percent statewide, 62 percent suburban and 63 percent rural.
The following respondents are included in the analysis related to budget size:

**Financial Health**

Larger organizations tended to have more success in meeting revenue goals. Almost half of the organizations with a budget over $1 million said they would meet their goals for 2009, while just over one-third of mid-size organizations ($500,000 - $999,999) said they expected to meet goals.

Larger organizations (almost 70 percent) appear to have already experienced declines among major funders, while smaller organizations were bracing for that decline. About 30 percent of the smallest organizations and about 20 percent of mid-sized organizations said they expected major donors to reduce or eliminate funding in 2010.

Larger organizations were more prepared for the economic downturn while 28.8 percent of the smallest organizations and 20.5 percent of those in the $100,000 to $499,999 budget range said they were “somewhat unprepared.”

Smaller organizations described their financial health in dire terms more often than mid-size or larger organizations. Smaller organizations were twice as likely to report that they were experiencing chronic financial problems as larger organizations. Similarly, half as many smaller organizations said they were financially healthy as the number of larger organizations reporting the same good health. About 6 percent of the smallest organizations said they may not survive through 2010.

Smaller organizations often operate with fewer cash reserves. Smaller organizations were four to five times more likely to have no cash reserves compared to mid-size or large organizations.

**Contending with Declines in Revenue**

The methods organizations used to respond to declining revenues varied according to the organization’s size and financial resources.

- Larger organizations (25.9 percent) laid off staff more than smaller organizations (11.2 percent).
- Larger organizations (28.2 percent) cut staff pay or hours more than smaller organizations (18.7 percent).
- The smallest organizations (7.3 percent) turned away clients more often than the largest organizations (2.4 percent).
- Small (11 percent) and midsize (15.1 percent) organizations collaborated with other nonprofits on programming or administration more than larger (5.9 percent) or the largest (2.4 percent) organizations.
- Mid-size and larger organizations (15.1 percent) accessed a loan or line-of-credit much more than the smallest organizations (3.7 percent).

**Programs and Future Outlook**

While a majority of all organizations reported an increase in demand for services, the largest organizations saw the greatest increase in demand. Almost half of the organizations with budgets exceeding $5 million reported a significant increase in demand, compared to one-third of those organizations with budgets ranging from $100,000 to $500,000, and only 23.8 percent of those with budgets under $50,000.

The outlook for the next three years was somewhat similar for organizations of all sizes, with a few notable differences: A greater number of larger organizations (about 40 percent) reported that they expected to “examine existing assumptions with the possibility of restructuring” than organizations in the $100,000 to $499,999 range (about 30 percent). About 4 percent of the smallest organizations and those in the $500,000 to $999,999 range said they will “actively seek opportunities to merge with another organization” while no respondents in the $100,000 to $499,999 or the over $5 million budget categories said they were seeking a merger.
Respondents selected a “mission type” to describe the objectives and activities of their organization. Most organizations selected more than one type, with the largest numbers of respondents falling into the education, health, human services, youth, and arts and culture categories.

- Significant percentages of all mission types reported decreases in funding from individuals, corporations, foundations and government, with a higher percentage of health organizations reporting decreases from these revenue sources.
- Health organizations were more likely than others to cut back on programs, reduce staff hours or pay and lay off.
- A higher percentage of arts nonprofits reported experiencing chronic financial problems than other groups.

Financial Health

Arts and culture organizations were slightly more likely (11.2 percent) to expect to significantly exceed or to exceed their revenue goals for 2009, compared to 9.3 percent of youth development, 8.5 percent of human services, 7.2 percent of health and 6.8 percent of education organizations. More than half of health (54.4 percent) and education (51.7 percent) respondents reported that they expected to fall short or fall significantly short of revenue goals.

A significant number of all groups had experienced the reduction or elimination of funding from a major funder, with more youth development (70.8 percent) and education (66 percent) reporting this reduction. More arts organizations (25.7 percent) expected a reduction from major funders in 2010 than other groups, and human service organizations (16.4 percent) were more likely to expect funding in 2010 at the same levels than other groups.

About one-quarter of human services and health organizations said they were financially healthy, compared to arts (20 percent), youth development (17.1 percent) and education (15.3 percent). More education (54.9 percent) and youth development (56.2 percent) nonprofits described themselves as “financially healthy to date but feeling vulnerable about the future,” compared to human services (51.6 percent), health (48.9 percent) and arts (44.3 percent) organizations. A higher percentage of arts nonprofits (27.1 percent) reported experiencing chronic financial problems than other groups. Among the relatively small numbers of all mission types who said they didn’t know if they would survive through 2010, arts nonprofits represented the highest percentage at 4.3 percent, followed by education (2.8 percent), human services (1.6 percent), youth development (1.0 percent) and health (0.7 percent).

Revenue Reduction by Funding Source

Significant percentages of all mission types reported decreases in funding from individuals, corporations, foundations and government. Higher percentages of health organizations reported decreases in revenue in each of these categories compared to other types of organizations.

Contending with Declines in Revenue

Health organizations were more likely than others to cut back on programs, reduce staff hours or pay and lay off staff. Arts organizations were least likely to resort to laying off staff than other mission types.

Reducing Expenses
The nonprofit sector performs services that are essential to the quality of life in every Colorado community. The following are strategies to help keep nonprofits financially healthy and communities strong.

For Nonprofits Organizations

The list below suggests a few key strategies as they relate to each of the nine principles in Principles and Practices for Nonprofit Excellence in Colorado, published by the Association in 2007.

- **Governance.** Boards of Directors must rigorously exercise their responsibility for financial oversight and should themselves step up fundraising efforts for the organization.
- **Planning.** Create and update contingency plans for finance, programs, personnel and facilities.
- **Fundraising.** Diversify revenue streams and fundraising strategies. Expand individual giving programs and increase efforts to cultivate and retain current donors.
- **Financial Management.** Keep a close watch on cash flow and your financial standing. Ensure that the board and management staff both engage in analyzing the organization’s financial health regularly.
- **Human Resources.** Consider using volunteers to fulfill functions or to meet increased demands. Involve staff in making critical decisions.
- **Evaluation.** Measure the impact and effectiveness of your programs and communicate these outcomes to the public and donors.
- **Public Policy.** Engage policy makers now in the distribution of local, state and federal funding.
- **Strategic Alliances.** Develop collaborative relationships to partner on programming, reduce administrative costs or share resources.
- **Transparency and Accountability.** Communicate how the economy has affected your ability to meet community need and communicate decisions you have made about your operations in a timely, forthright manner to all stakeholders.

For Funders

- Consider making more general operating grants to help nonprofits through these financially difficult times.
- Increase communications with nonprofits about your plans or changes around your funding and share information about other available resources.
- Reward and facilitate the renewed collaboration among nonprofits that the economy has spurred.

For Individuals and Businesses

- Find a cause and donate to an organization. Start by visiting www.generouscolorado.org.
- Every Colorado individual, family and business can make a difference. Every donation of money or time will strengthen your community.
- Find volunteer opportunities. Start by visiting the resources page of the Governor’s Commission on Community Service at www.colorado.gov/gccs/resources.html.

For State and Local Government Policymakers

- Remember that nonprofit organizations leverage public dollars with private donations and volunteer hours. As such, they can maximize the use of public funds.
- Governments should continue to fund public services that nonprofit organizations deliver in a cost-efficient manner.
- Incorporate nonprofits in discussion pertaining to community issues. Through their boards, staff, clients, donors and volunteers, nonprofits have wide networks in communities and can serve as an important resource for information when policy makers are deciding how to allocate and spend public funds.
Acknowledgements

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Cover Photos (clockwise from upper left): Opera Colorado (Photo by Matthew Staver), Mile High Youth Corps, Kids in Need of Dentistry, Freedom Service Dogs, Special Transit