

Why Nonprofits Fail – the pitfalls are many

By Suzanne V. Benoit, LCSW

Why is it important?

Some of us thought last year's 90 million dollar cuts to social service were difficult and signaled changes in nonprofit funding assumptions. Unfortunately, next year's revenue shortfall is worse. DHHS has already cut nearly all their grant-funded programs: family mediation, crime victims and others. State reimbursement rates for mental health services have been trimmed, as well. Any nonprofit who has failed to create better economic security will surely face tough times that many will not survive. Public funding cuts have moved beyond the concept of incenting greater efficiencies. The level of cuts expected in 2009 will take us to uncharted territory. Even the most seasoned public servants have difficulty conceiving of how disabled children and adults, the elderly and the mentally ill will live with dignity in years to come.

How many nonprofits?

According to Guidestar.com, there are 10,880 nonprofits operating in Maine registered on the website. This is roughly 1 nonprofit for every 120 people (census est. 2007 Maine is 1.3 million). There are 597 nonprofits with "environment" in the name. Duplication of service is a challenge the United Ways have been talking about for years and mergers and acquisitions are on the rise. But duplication is more of an issue for programs dependent upon foundation grants. Speaking of social services, duplication is not the problem.

Funding loss combined with lack of diversity

Maine is in a period of social service funding retrenchment that began a few years ago. But loss of state funding is not enough to sink an organization unless it is combined with overdependence on state funding or one source in general. Nonprofits with a diversified funding base can survive cuts with proper planning, anticipation and efficiency gains. An endowment fund is another effective means to cushion funding losses and economically challenging times.

Cash management and financial reports

Lack of cash management and/or lack of complete financial reports make it difficult for organizations to take preventive measures during tough economic times. State funding, particularly DHHS contracts are historically inconsistent with respect to receivables timing. Seasoned CEOs know to plan for payments to be late when their contracts renew. Accounts Payable and Accounts Receivable aging reports should be a part of every nonprofit's financial reporting.

The burden of old facilities

With good reason, nonprofit funding focuses on direct service and not capital improvement. Many public funding sources prohibit the accumulation of funds for capital improvements. Large, older nonprofits whose services depend upon bricks and mortar or access to land have a special challenge of repairs, upkeep and modernization. Further, an organization begun 30 years ago in a city may be holding a building with tempting market value - a commercial buyer may have the cash to renovate it. Its sale might yield capital as long as the organization has resisted refinancing through the years, avoiding a mortgage nearly equal to the property's value.

Controlling expense increases

Summer gas and fuel price spikes helped to increase the cost of every type of service. Maine is a large state and efficient job design led many social service agencies to consolidate staff in regional offices. Getting staff to where clients are located involves travel reimbursements. Perhaps our recent gas price rollbacks will last a bit longer. Managers cannot control all types of expenses but failing to control the ones you can, will quickly result in financial problems.

Challenge of private fundraising

A simple 10-year profit and loss projection quickly demonstrates the funding increases needed just to maintain a current level of services as the cost of service delivery increases. Public funding is nearly always level. Not many nonprofits have private fundraising machinery adequate to raise substantial funds efficiently. In the last three years many nonprofits have taken steps to improve fundraising effectiveness. However, as funding decreases and nonprofits improve their fundraising skills, there is a scramble to contact the same potential donors and foundations. Finally, starting up a development department requires funding, which requires private funds - a "Catch 22" challenge.

Lack of operating capital

Social services "serve" vulnerable populations. By definition this includes low income families, the elderly, disabled and others who cannot pay for the full cost of services needed to lift them from their present circumstances. Even those nonprofits who charge a fee for services cannot collect the full value from clients, and state reimbursement rates are not designed to pay the full cost of services. Income from operations is a blessing if you have it.