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Joseph C. Morreale, PhD

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Joseph C. Morreale, Ph.D.

Professor of Public Administration and Economics
Wilson Center Faculty Fellow
Pace University
Helene and Grant Wilson Center for Social Entrepreneurship

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ABSTRACT

This research paper analyzes the impact of the recent Great Recession on nonprofit organizations. More specifically, it studies the impact of the recession on their ability to raise funds and remain financially viable. The four key research questions discussed are: What has been the overall impact of the Great Recession on nonprofit organizations?; How has the Recession impacted the fundraising capability of nonprofit organizations?; How well have different types of organizations weathered the Great Recession's impact on their revenue sources?; and What strategies have nonprofit organizations found to be useful in surviving this severe downturn? The study uses the most recent data on nonprofit financing from 2007-2010. The results show that nonprofits as a whole have seen general declines in contributions and funding. But there are clear differences in the impact of the eleven sectors studied. Moreover, the size of the organization matters as does its main source of revenue. The paper concludes with a set of strategies that have been successful at stemming the decline in nonprofit funding. The study provides valuable insight into the ability of nonprofit organizations to survive such difficult economic times and also to reveal the various practices that have been successfully utilized for their survival.

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the Financial Resources of Nonprofit Organizations"

By
Joseph C. Morreale, Ph.D.
Faculty Fellow
Helen and Grant Wilson Center for Social Entrepreneurship

I. Introduction

The recent economic recession, dubbed the "Great Recession" (2008-present), in the U.S. has caused nonprofit organizations to have to rethink and readjust their role in the U.S. economy and society and work to stabilize their future viability. This study for the Wilson Center focuses on the financial impact of the recent Great Recession on nonprofit organizations. More specifically, it investigates the impact of the recession on their ability to raise funds and maintain their revenues. There are four key research questions central to this study:

1. What has been the overall impact of the Great Recession on nonprofit organizations?
2. How has the Recession impacted the fundraising capability of nonprofit organizations?
3. How well have different types of organizations weathered the Great Recession's impact on their revenue sources?
4. What strategies have nonprofit organizations found to be useful in surviving this severe downturn?

The study should provide valuable insight into the ability of nonprofit organizations to survive such difficult economic times and also to reveal the various practices that have been successfully utilized for their survival. This research should be both a valuable academic study as well as a practical aid in helping entrepreneurs manage their nonprofit organizations. We begin our analysis with a brief profile of the nonprofit sector in the U.S.

A Profile of the Nonprofit Sector

As reported by the National Center for Charitable Statistics (NCSS 2010), in 2010, there were 1,617,301 tax-exempt organizations in the U.S. This includes 1.047 million public charities (64.7%), 454,667 other types of nonprofit related organizations (28.1%) and 115,915 private foundations (7.2%). In 2009, nonprofits accounted for 9% of all wages and salaries paid in the U.S. In 2008, public charities reported over $1.44 trillion in total revenues and $1.34 trillion in total expenses. Seventy percent of the revenues came from program service revenues, 20% from contributions, gifts and government grants and 10% from other sources including dues, rental income, special events, etc. In 2009, charitable contributions by individuals, foundations and corporations totaled $303.75 billion which was about $13 billion less than the peak of 2008. Individuals gave $227.41 billion in 2009 (75% of the total) which was about equal to what they gave in 2008. Foundations gave $42.9 billion in 2009 (14% of the total) down $3.6 billion from 2008.

Table 1 offers a summary of the changes in numbers and types of nonprofit organizations over the decade 1999-2009. The total number of nonprofit organizations increased by 378,538 or 31.5%. Public charities which increased the most (59.3%) accounted for 63.7% of all nonprofit organizations in 2009. Private foundations also grew rapidly (by 54.7%) but only accounted for 7.6% of all nonprofit organizations, whereas other nonprofit organizations declined by almost 40,000 organizations (-7.9%) but still accounted for 28.7% of the total in 2009. So we can see the rapid growth of the number of nonprofit organizations over this dynamic decade of economic growth.

But let's review what happened between 2007 and 2010 during the Great Recession which is the main focus of this study. Table 2 offers a detailed breakdown of the reporting number of public charities by NTEE code between 2007 and 2010. Table 2 reports that of the 25 groups, the four largest ones accounting for over 50% of the Public Charities NPOs were (1) Education (18.8%), (2) Arts, Culture and Humanities (12.5%), (3) Human Service (10.7%), and (4) Recreation, Sports, Leisure and Athletics (10.2%). The remaining 21 groups each had under 7% of the total. We can also see that the rapid growth of these Public Charities increasing by 164,549 or 48%. The largest increases in growth were in: (1) Public Society Benefit (172.5%), (2) Recreation, Sports, Leisure and Athletics (83.8%), (3) Environmental Quality, Protection & Beautification (76.0%), (4) Science and Technology Research Institutes, Services (75.7%), (5) Arts, Culture and Humanities (66.7%), and (6) Animal-Related (64.5%).

The Usual Relationship Between Economic Recessions and the Viability of Nonprofits

There exists sufficient evidence that trends in charitable giving are related to the state of the economy. Studies from the Indiana University Center on Philanthropy (2008) suggest that changes in individual giving are generally more moderate than the overall ups and downs in the economy. The standard view in the philanthropic arena has been that as the economy expands, individual giving grows faster than the economy, while when the economy slows, or turns negative, such giving continues but at a slower rate. Even for foundation giving, a certain persistence remains. A recent report of the Foundation Center (2008) concludes that during each of three most recent recessions, foundation giving in real dollars remained stable.

Several factors help to explain this phenomenon. The strong economy of the last two decades increased generous gifts to existing foundations and the establishment of new foundations. New money reduced the impact of declines in existing foundation assets. Moreover, foundations determine their level of giving for a given year based on a rolling average of their asset values over the prior three to five years. This delays the impact on foundation giving and maintains their level of giving beyond the onset of the recession. Sometimes if the recession is of a short duration, say less than a year, they never really feel the full impact of any decline in their asset values. But as we will argue in this paper, this Great Recession has been different than past recessions, being more severe and more persistent and so its impact on nonprofit giving has been significant.

The “Quiet Crisis” of NPOs in the Great Recession

There is a “Quiet Crisis” occurring in the U.S. related to the nonprofit sector. This is a term first used by the Bridgeland, McNaught, Reed and Dunkelman in their recent study entitled “The Quiet Crisis: The Impact of the Economic Downturn on the Nonprofit Sector” (Bridgeland et al., 2009). As the authors state, “this report was written to shine a spotlight on the under-reported plight of America’s nonprofit organizations and to make recommendations for how the nation can respond” (Ibid.).

A decline in the nonprofit sector is seen as being felt across the nation in all sectors of the American economy. The sector contributes more than $322 billion in wages and its workforce numbers 9.4 million employees and 4.7 million full-time volunteers thereby accounting for 14 million people. This totals 11% of the workforce and makes up 5% of the nation’s GDP. So the nonprofit sector is an important contributor to the overall U.S. economy.

The Great Recession over the past three years (2008-2010) has dramatically impacted the nonprofit sector for the worse. The demand for services has increased significantly while the sources of funding for the nonprofits have declined. Moreover, Americans have seen decreasing levels of disposable income due to job losses and rising inflation in food, energy, health care and other basic necessities. Therefore, their ability to give and support nonprofits has decreased. This recession comes right after a period of time of record giving levels. The year 2007 saw the highest level of donations ($306.3 billion). As “The Quiet Crisis” paper reports, three-quarters of the surveyed nonprofits at the end of 2008 already felt the effects of the economic downturn. Over half already had felt the cuts in their funding.

Table 3 reveals the impact of the Great Recession on the total revenues of Public Charities. Overall. Revenue declined from $1.397 billion to $1.376 or a fall of $21 million. The two largest declines in dollar terms were in Education -$39.86 million and Philanthropy, Voluntarism, Grantmaking Foundations -$17.67 million. The only major gainer was the Health group which increased $45.18 million. In percent loss, the four biggest losses were in Philanthropy, Voluntarism, Grantmaking Foundations (-46.5%), Medical research (-37.9%), Arts, Culture and Humanities (-18.9%), and Education (-15.3%).

In previous recessions, giving for charitable causes always falls. The worst period for such a decline in real (inflation adjusted) giving was a drop of 9.2 percent from 1972-1975. Today’s impact could be much more severe for two reasons: one is that the nonprofit sector is much larger and two, the recession is much more severe and could be of a longer duration. Nonprofits have faced a two-fold dilemma. On the one hand, they are facing high and growing levels of demand from individuals and families who are struggling in this down economy and in need of their services. On the other hand, the nonprofits find themselves with decreased resources as individual and corporate giving and federal and state funding decline. Who is affected the most? Service-based and Faith-based organizations. But these are the very organizations that are needed to provide the help and support in human services necessary to sustain people during hard times. Cultural organizations like museums, symphonies and historic sites are also seeing sharp cutbacks. A survey of close to 100 NYC cultural organizations found that 79% reduced their budget in 2009; two-thirds will defer new hiring; four in ten have laid off employees; and almost half reduced programming (Hoye, 2009).

As the *Wall Street Journal* has reported (*WSJ*, 2/2/2010), with the onset of the economic recession, a drop in donations and government funding translates into a difficult financial situation for the U.S. nonprofit sector. Although the U.S. nonprofit sector has more than doubled from 1987-2007 and has grown to employ14 million Americans or nearly 10% of the American work force, the recent economic recession has directly challenged nonprofits’ survival (*WSJ* 2010 and The Quiet Crisis report). In 2008, private giving dropped by 6%, marking the largest decline in donations in 50 years (*WSJ* 2010). Similarly, state government funding dropped 5% in 2009 and 4% in 2010 and state governments owe nonprofits over $15 billion (*WSJ* 2010). With a dramatic decline in funds, nonprofits have been forced to restructure their organizations with mergers, acquisitions, cutbacks, and closings.

Some argue that there are too many nonprofit organizations that have poor performance or provide similar services and should be reduced during an economic recession, but the demand for nonprofit services has grown during this difficult economic time. The human services sector may be the nonprofit group most affected by the recession, with a 12.7% drop in donations in 2008 while they faced an increase demand for their services. Many of such organizations have opted to merge or collaborate with other similar organizations in order to qualify for increased funding and strengthen their resource base.

Why giving in this economic downturn may be different.

The comeback that is often seen in previous recessions may be more questionable this time. GivingUSA Foundation (Giving USA Foundation, 2010) reported that after the previous recessions, charitable donations took 3 to 5 years to reach prerecession levels. This time it might take much longer. This Great Recession is much worse than many seen previously in the last 70 years. The duration of high unemployment may last longer, and it may take many more years for the nation to fully recover its economic prosperity which was at its peak in 2007. This crisis is unprecedented in recent history in terms of scale and scope. Foundations lost an average of 30% of their asset values during the fall 2009 stock market drop. This is much higher than what we have seen in previous recessions. The individual's sense of economic security has been shaken because of large reductions in key assets (like homes), the rising and persistently high unemployment rate, and the large debt burden that remains on most American households. Finally, households face the loss of assets and retirement savings, especially since the nation has moved away from defined benefit plans to much more emphasis on defined contribution plans. All of these make it less realistic to expect households to donate either as readily or as much. For all of these reasons, we can expect funding to nonprofit organizations to continue to be difficult and the recession to be prolonged.

II. LITERATURE REVIEW

The previous section offered a general overview of trends in nonprofit organizations and the effect of recessions on their funding. This section discusses the findings from more analytical studies in the nonprofit literature and focuses on the financial impact.

Much has been analyzed and written about the effect of recessions in general, and of the Great Recession, in particular on nonprofit organizations in the U.S. From the previous section of this paper, we have seen the big impact on revenues and services NPOs have witnessed. This section of the paper will summarize the results obtained to glean what we know about the impact of <u>this</u> recession on NPOs' ability to sustain themselves financially. We will also discuss the difference between the impact of this particular Great Recession and past recessions. This section will act as a lead-in to the next section which presents the different approach taken in the present study from previous studies and the results it has uncovered. Most of the work in the past literature has focused on surveys of nonprofit organizations and how they are coping with the economic down of the past three years. The present study offers a more data-driven quantitative approach to analyze the impact on NPOs. We begin with an important historical view of the effects of past recessions on NPO fundraising programs.

Nonprofit Organizations' Fundraising in Difficult Economic Times

Warwick and Doyle (2008) present a review of the impact of past recessions on nonprofits. Their research shows that though recessions are "always temporary in nature," fundraising ability and results roughly correlate with changing economic conditions" (Ibid.). The chief trends that effect fundraising activities are trends in personal income and the changes in the Stock Market as seen particularly by the chief index of the Dow Jones Industrial Average (DJIA). If the economy is on the rise by these measures then fundraising is usually more successful. If the economy is on the decline, then fundraising tends to decline and revenues fall off. Moreover, the DJIA tends to be a leading indicator anticipating future trends, whereas fundraising tends to be a lagging indicator that declines after the recession has been in full swing.

Research has also demonstrated that economic downturns especially as seen in the above two indicators has an uneven and unequal effect on nonprofits. The decline of the Stock Market tends to hit the larger foundations and big individual donors harder because of their heavy investment and therefore reliance on market changes. Foundation grants may be especially prone to drop sharply during stock market declines, since their assets are mostly invested in securities and since their donation funding levels are often pegged at 5% of asset values. Since there is often a lag in the impact of downturns due to the fact that donations are based on the previous years' stock market results, the actual decline in giving may not be felt until one year later than the onset of the recession and then last into a few future years.

As corporate profits decline during recessions, corporate giving also shrinks. But again this is not uniform across companies. There are companies that move counter cyclically to market trends and there are many that also engage in sharp cost cutting during the recessions, both of which cushion the decline in profits. Nonetheless, we see declines in corporate giving especially in prolonged recessions and this particularly impacts NPOs who rely on such corporate contributions for much of their funding.

Another effect of recession that should be noted is the uneven impact on the types of nonprofit organizations in their particular specialized activities. Difficult economic times enhance the importance of human services and health care organizations, reinforcing the need for giving to maintain if not expand their critical activities and services. Others such as education or arts and culture which are often considered in hard times of less importance might experience greater declines in giving.

In shorter to middle length recessions, the effects on nonprofit fund raising may be less pronounced in renewal of memberships, telefundraising and direct mail efforts, cash contributions in churches and other venues of giving by middle class average families. However, if the recession drags on and lasts for more than a year or grows worse over time, households become much more cautious in their spending, in general and in giving to NPOs, in particular. This is particularly significant for the effect of the present Great Recession because of both its severity and duration to date. We now turn to some evidence regarding its impact.

Impact of 2007-09 Recession on Nonprofit Organizations

Salamon, Geller and Spence (2009) at Johns Hopkins University put together a comprehensive survey of the impact of the present recession on NPOs. Their survey included a variety of nonprofit organizations in five key fields: Child and Family Services, Elderly Housing and Services, Education, Community and Economic Development, and the Arts Fields. They found that nonprofits are generally reporting major economic stress (80% of the organizations reporting fiscal stress). Close to 40% of the organizations considered the stress to be "severe" or "very severe." This economic stress included impacts of falling endowments and declining revenues and revenue sources combined with increased costs including health benefits and wages. This combination of declining revenues, increasing costs, declining endowments and decreased cash flow from restricted credit and government payment delays led the authors to describe this as a "perfect storm" effecting NPOs (Salamon et al., 2009).

But as we reported from the earlier discussion, the impact was unequal across organizations. Culturally-based NPOs were particularly hard hit with about half of the theaters and almost three-quarters of the orchestras reporting severe or very severe financial stress. This contrasts with only about one-third of Child and Family Services, Elderly Housing and Services and Community and Economic Development Organizations reporting such stress. It was also seen that in terms of size of organizations (as measured by annual revenues) the hardest hit ones were those in the mid-sized range ($0.5 - $3 million), followed by large organizations (>$3 million) while smaller organizations (<0.5 million) fared better.

In analyzing actual experiences in revenue losses in fiscal year 2009 vs. those in fiscal year 2008, differences in declines of the specific sources of revenues were seen. At least 40% of the organizations surveyed saw declines in private individual contributions, private corporate contributions and foundation support. Only about one-third of the organizations saw declines in government support, endowment income and fee-for-service income. Less than 10% saw declines in member dues and other commercial income. These results indicate that those organizations that relied most heavily on private individual contributions, private corporate contributions or foundation support witnessed greater fiscal stress.

GuideStar 2010 Surveys

GuideStar is one of the leading organizations reporting on the effects of the economy on the financial state of nonprofit organizations. Two of their latest reports are very revealing about how the nonprofits are faring in this Great Recession. The June 2010 survey (GuideStar, June 2010) showed increasing strain on the nonprofits caused by the continuation of the Great Recession. More than 60% of the participants in the survey reported decreased contributions attributable to the decline in both the number of donors and the amount of their donations. Moreover, 40% of the organizations said that corporate gifts and private foundation grants were smaller. When asked if their budgets in FY 2010 increased relative to the budget in FY 2009, 41% said that they increased (but 34% said only modestly), 28% said that they stayed about the same, while 29% answered that they had decreased (20% reported that they decreased modestly). Compounding these difficulties, 63% of the organizations reported that the demand for their services increased while only 6% said that they had decreased.

The second 2010 GuideStar survey (GuideStar, December 2010) focused on fundraising activities by the end of 2010. The tone of their findings was the beginning of cautious optimism about the nonprofit sector. This viewpoint was based on such results as the proportion of respondents reporting decreased contributions declined from 51% (October 2009) to 37% (October 2010). Moreover, the percentage who said that contributions had grown increased from 23% to 36% over the same time period.

Some specific and again differentiated results across nonprofits were reported. Large organizations (>$1 million in revenues) reported increased contributions. Those NPOs reporting decreased contributions (<$1 million) cited both fewer individual contributors and smaller contributions as factors.

Differential impacts were also seen across the groupings of types of nonprofit organizations. Three sectors (Health, Public-Society Benefit and Religion subsectors) reported a larger percentage of organizations experienced a decrease in charitable contributions than reported an increase. Some organizations (Arts, Education, Environment and Human Services) reported an equal percentage of increases and decreases in contributions. International Organizations were the most positive in reporting increases in contributions, reflecting donations made for disaster relief (like the Haitian earthquake and flood relief in Pakistan).

An Urban Institute survey (Boris et al. 2010) reveals the need for nonprofits (especially in difficult economic times) to become less reliant on government funding. About 33,000 human service nonprofits have government contracts and three out of every five of these human service nonprofits report government funds as their largest source of funding. Additionally, with about 90,000 units of government (state, local, special districts), nonprofits must invest time and resources in finding and applying for government funding. Government contracts are often cut during difficult economic times and government payments also become late in such a climate, but an alarmingly large number of nonprofits continue to rely on government funds for their programs.

III. METHODOLOGY

As we have seen from the review of the literature, most of the previous research on the impact of this recession on the nonprofit organizations has primarily used a survey methodology and survey results. Such an approach provides quality results for the varied effects on nonprofits by sector and also by revenue category. But the results are reported *as seen by the participants in the survey*, i.e., from the perspective of their view of the world around them. We take a different methodological approach in this study. We use detailed data collected from published sources to analyze the financial outcomes of the nonprofit organizations in this Great Recession period. We are also able to differentiate the impact on different types of NPOs by sector in greater detail.

Sample and Data

The data for this research paper was collected from the IRS Statistics of Income (SOI). The IRS draws samples from the IRS 990 Forms filed by nonprofit organizations for the years 2007 and 2010. The Form 990 includes detailed data on each registered nonprofit organization's revenue, expenses, assets and liabilities. The SOI samples include all nonprofits that are exempt from taxation under section 510 (c) (3) of the Internal Revenue Code (donations to these organizations are tax-deductible on personal income tax returns) and that have assets of at least $10 million, as well as a smaller sample of small organizations. While the number of registered nonprofits organizations in the U.S with assets of over $10 million represents only 5% of all nonprofit organizations filing from 990 US Tax Returns (including 990EZ and 990PF), this group represents 81.5% of total reported revenues and 89.5% of total reported assets for the sector.

We chose to focus our analysis on nonprofit organizations located in the greater New York metropolitan region. This database provides us with relevant data that will be used to determine the impact of the recession on nonprofits in New York. A sample of nonprofit organizations from the categories of the Arts, Higher Education, Education, Health, Environment, Human Services, International, Mutual Benefit, Public and Societal Benefit, and Religion were selected. These organizations are from the

Primary Metropolitan Statistical Area of Bronx County, Kings County, New York County, Putnam County, Queens County, Richmond County, Rockland County and Westchester County. The National Taxonomy of Exempt Entities (NTEE) Code is used by the IRS to classify nonprofit organizations based on the descriptive data they provide when seeking tax-exempt status. For the purpose of this research, we will use the NTEE major group 12.

Each major category is defined as follows:

Arts, Culture and Humanities is defined as private nonprofit organizations whose primary purpose is to promote appreciation for and enjoyment and understanding of the visual, performing, folk, and media arts; the humanities (archaeology, art history, modern and classical languages, philosophy, ethics, theology, and comparative religion); history and historical events; and/or communications (film, video, publishing, journalism, radio, television).

Higher Education includes educational institutions that provide opportunities for individuals to acquire a higher level of knowledge, skills and specialization in their chosen area of interest in a formal school setting

Education is defined to include all formally constituted educational institutions (except art and performing art schools) and organizations or activities that administer or support those institutions; libraries; organizations whose primary purpose is to provide opportunities for supplementing and continuing education outside the framework of formal education institutions (including English-as-a-second-language programs and literacy and reading programs for children and adults); and organizations that provide educationally related services to students and schools, e.g., educational testing services, scholarship programs, drop-out prevention and programs designed to increase parent participation in the schools.

Hospitals are twenty-four hour medical institutions that provide diagnostic and treatment services for people whose illnesses require an overnight stay. Most hospitals also provide a variety of services on an outpatient basis.

Environment includes those private nonprofit organizations whose primary purpose is to preserve, protect and improve the environment.

Health refers to organizations that are concerned primarily with one or more aspects of health financing or that provide services, which relate to health care in general.

Human Services are organizations that provide a broad range of social services for individuals or families.

International involves private nonprofit organizations whose primary purpose is to provide services or other forms of support to increase mutual understanding across countries, encourage social, economic or political development outside of the U.S., and/or impact national, multilateral or international policies on international issues.

Mutual Benefit refers to organizations, including fraternal benefit societies, that provide health, life, and other forms of insurance; pension plans, teachers' retirement benefits, and other retirement plans; burial plans; supplemental unemployment insurance; access to credit; or similar types of services for the mutual benefit of their members.

Public and Societal Benefit encompasses organizations or programs that focus on promoting the effective functioning of government, public administration and public officials; organizations that conduct or promote research in multidisciplinary public; programs that support or provide services required for the effective functioning of society; organizations that promote patriotism, including military and veterans' organizations and their auxiliaries; and organizations that protect the public against the distribution of unsafe goods and products, including product testing and reporting services and consumer rights organizations.

Religion includes organizations or programs operated for the purpose of worship, religious training or study, governance or administration of organized religions, or the promotion of religious activities.

Aggregate Sector data for 2007 and 2010 was collected from the IRS Business Master File to show the number of nonprofit organizations in each NTEE category located in the PMSA area (defined above). The data required to examine a nonprofit’s financial detail before the downturn was selected from 2007 IRS Form 990 samples taken from the Statistics of Income Database. More recent data was collected from PDF copies of the 2010 Form 990s of our selected sample of nonprofit organizations to note any significant disparities. The Form 990 includes complete data of an organization’s revenue, expenses, assets, liabilities as well as their source of funding. This allows the researcher to examine and compare any notable changes in an organization’s finances at the onset of the recession and after.

IV. RESULTS OF THE STUDY

The study focused on the change in revenue from 2007-2010 by each of the 11 groupings of nonprofit organizations in the New York City Primary Metropolitan Statistical Area (PMSA). There were 829 NPOs in all and we have displayed the distribution of these by each of the groupings both in numerical and percentage terms (See Table 4). The study also looked at five key variables that we wanted to investigate to see if there were significant differences across the organizations. For both the groups and the variables the results were formulated in quartiles. In this way we could see for each of the groupings of the NPOs, the percentage of the organizations that were highest in ability to raise revenues and those that were lowest. We also could judge which of the variables analyzed produced both high and low results in percent change in revenue. The results are summarized in Tables 4 and 5.

Table 4 summarizes the 829 NPOs represented in this data. About 25% were in Human Services and 16% were in Health organizations with an additional 6% in Hospital Care. In addition, 15% were in Education below the college level and 5% more were in Higher Education. Arts, Culture and Humanities and Public and Social Benefits each respectively accounted for 11% of the NPOs. International Organizations accounted for another 6%, while the remainder (Religion, Mutual Benefits, and Environment) were all less than 3%.

Table 5 reveals that there were clearly NPOs in certain industries that fared much better in maintaining their revenue flow during the Great Recession than those in other industries. The comparison that was made was how the distribution of NPOs fared by quartile against the overall results for all of the groups. So for example, 60% of Higher Education NPOs scored better than the overall midpoint for the entire sample of NPOs, where as 40% fell below that midpoint. The four groups that stand out as having done better than the other groups in order of placement were: Hospitals (82% above the midpoint of all of the groups), Health Care Institutions (65%), Higher Education (60%) and Human Service (59%). The six NPOs groups that scored the poorest were in order: Religion based organizations (74% scored below the overall midpoint of the entire group), Arts, Culture and Humanities (72%), International Organizations (71%), Environmental Organizations (65%), Public and Social Benefits Organizations (64%) and Mutual Benefits Organizations (60%). Education (excluding Higher Education) was pretty evenly split between 45% (above) and 55% (below).

If we analyze further and focus on those that scored the highest in the top quartile vs. those that scored with the greatest number in the bottom quartile, we gain further insights. The three highest scoring NPOs are Hospitals (49%), Health (37%), and Mutual Benefits (40%), but the latter is based on only a sample of 5 organizations. The four NPOs that scored the lowest (highest percentage in the lowest quartile) were Arts, Culture and Humanities (39%), Public and Social Benefits (36%), International Organizations (33%) and Religion (32%). In the discussion of results section of the report we will consider what factors accounted for the differences in results between those that fared well and those that did not.

Table 6 presents the results for the variables that were considered important to the viability of NPOs to sustain their revenue flow in a major economic downturn. These were the size of the organization in terms of total assets and number of employees. In each case it was assumed that the larger the organization, the better the chance that they would maintain their revenue flow. We also analyzed the relative emphasis of the various sources of revenues as indicators of financial viability. These included dependence on government funding, dependence on program service revenue and dependence on donations. We assumed that the greater dependence on donations would make the organization more vulnerable, where as greater reliance on program revenue and government funding might make them more financially stable. Again we used the percentage quartile for each variable against the overall ability of funding by the 829 NPOs.

For the most part we were correct in our assertions. Larger organizations (as measured by number of employees) fared better in increasing their revenue flows. However, larger organizations in financial terms (as measured by total assets) fared less well and were hit harder by the Great Recession. This result was counter to our assumed impact. In terms of sources of revenues, those organizations that relied heavily on government funding were more stable. Two-thirds of organizations that relied more on government funding scored in the top 25% of organization's revenue flows and another 72% scored in the second quartile of revenue increasing organizations. Organizations that relied more so on program service revenue also did better than those that relied less so with 54% scoring in the highest quartile and 61% scoring in the second quartile. Those organizations with greater dependence on donations (direct public support) were hit the hardest with almost half accounting for the lowest quartile exhibiting the worst percentage change in revenue flow and one-third making up the second lowest quartile.

Comparing this study's result to past studies

We now review how the results from this paper compare to those we have seen in other studies. According to GivingUSA (2010), organizations that focus on Health, Human Services and International Aid generally saw an increase in funding. The view seems to be that these organizations provide services that are essential especially during recessionary times and so funding of them is a high priority. By contrast Foundations, Educational Organizations, and Arts, Cultures And Humanities Organizations saw a decline in funding. These are looked upon as of lesser priority especially during a recession as severe as recently. Even religious organizations have seen a decline in giving largely because they rely so heavily on individual giving. So our results compare favorably to those uncovered in the review of the literature.

The GuideStar Survey (2010) also reported differential impacts were also seen across the groupings of types of nonprofit organizations. Three sectors (Health, Public-Society Benefit and Religion subsectors) reported a larger percentage of organizations experienced a decrease in charitable contributions than reported an increase. Some organizations (Arts, Education, Environment and Human

Services) reported an equal percentage of increases and decreases in contributions. International Organizations were the most positive in reporting increases in contributions, reflecting donations made for disaster relief (like the Haitian earthquake and flood relief in Pakistan).

V. SUCCESSFUL STRATEGIES USED BY NONPROFIT ORGANIZATIONS TO REMAIN VIABLE

Coping Strategies of Nonprofit Organizations

There are a series of strategies that nonprofits have taken and some significant recommendations made by nonprofit analysts to aid NPOs in their attempt to weather the stormy waters created by the Great Recession. We will review these here to gain insights into successful strategies and policy recommendations. They fall into four categories: (1) continuing to cultivate relationships and developing new marketing techniques; (2) communicating and forming collaborative relationships and merging with other similar nonprofit organizations; (3) using strategic thinking and planning; and (4) developing a new national policy approach. We start this discussion with some evidence about coping strategies from a national survey.

1. A Comprehensive Overview of Strategies

In their comprehensive survey, The Johns Hopkins Study (Salamon et al. 2009) enumerated entrepreneurial strategies being used by nonprofits to cope with the economic downturn. These included such strategies as listed below with the percentage of NPOs using them:

- Improved/expanded market efforts (48%)
- Implemented or expanded advocacy for organizational funding (45%)
- Expanded existing fee-for-service activity (24%)
- Introduced or raised prices/fees (22%)

- Increased outreach to new clients/customers/patrons (21%)

Funding strategies being used by nonprofits to cope with the economic downturn were:

- Initiated or expanded efforts to obtain donations from individual donors (61%)
- Initiated or expanded efforts to obtain state and /or local funding (57%)
- Initiated or expanded efforts to obtain federal funding (56%)
- Pursued new foundation or corporate support (55%)
- Organized a special event/fundraiser (32%)

2. Donor Cultivations and New Marketing Techniques

Blackbaud (2011) released new research highlighting important trends in nonprofit peer-to-peer fundraising. This study found key reasons that explain why people give. Major factors include a personal connection or commitment to a cause and enjoyment in being part of or leading a team. Therefore, effective fundraising strategies for individual donations would include the use of online, social media, and mobile technology combined with cultivating volunteers to reach out directly to more potential givers.

Another study cited in Nonprofit Resource Memo (2011) highlighted some best practices for nonprofit fundraising. Cultivating relationships with major donors (their personal connections to the cause and providing the donor with goals or objectives) and online marketing strategies have proven to be effective in nonprofit survival during difficult economic times.

3. Cultivate Communication, Collaborations and Mergers with Other NPOs

The Johns Hopkins Survey (2009) indicated that NPOs should make sure to do the following things:

- Continue to emphasize donor relationships
- Consider mutually beneficial partnerships
- Keep communicating with donors, foundations, similar types of nonprofits

The Accenture organization (2009) joined with Crain's New York Business to facilitate a half-day roundtable discussion by 13 leaders of major nonprofit organizations located in the New York City metro region. It provides some very valuable insights into the current challenges facing NPOs in NYC.

With the loss of capital and resources, New York City nonprofits have used a number of coping strategies to survive in hard economic times. Some collaborate or merge with other organizations to lower their operating costs and focus their programs. This leads to financial difficulties in agreeing to partnership terms. Many also undergo program evaluations to determine whether or not their resources are being channeled most effectively and to streamline and lower costs. Accountability and measurement are thus important factors to nonprofits that must prove their success to the public they serve and to their donors.

Accenture (2009) suggests collaboration and consolidation strategies.

- Collaboration and Partnerships: Recessions are a time to consider collaborating with other organizations to lower operational costs and to focus finite funds on the necessary infrastructure to support essential activities. Collaboration can take many forms. It can also lower operational costs and leverage strengths. Sharing resources across organizations increases the efficient use of very scarce resources in times of recession and also create synergism among organizations that can lead to new creative approaches and economies of scale.
- Organizational Consolidation. This is a strategy and opportunity to achieve collaboration, reduce redundancies and foster structural excellence. Some nonprofits may need to merge with others to survive. In recent times we have seen this accomplished in the financially burdened hospital sector in local communities.

4. Strategic Thinking and Planning

The Johns Hopkins Survey (2009) suggested that such an economic downturn provides an opportunity to do some strategic thinking or rethinking:

- Reshape the organization, redefine the work, and retain/rethink organizational mission and core identity
- Keep a close watch on your environment - do environmental scanning
- Adopt “Best Practices”

They found that nonprofits were resilient in their response to the economic downturn, boosting employment and reporting “success” despite the economic climate. Three-fourths of the organizations reported being able to maintain or increase the number of people they served. Best practices include new or expanded fundraising efforts, cutting administrative costs, collaborating with other nonprofits, freezing salaries, increasing fee-for-service initiatives, postponing new hires, relying more on volunteers, and increasing their marketing and advocacy.

Banjo and Kalita (*WSJ* 2010) reported the shakeup in many nonprofit-driven markets that the Great Recession is causing many nonprofits across the country to undergo difficult restructuring. Because of the fall off in funding, nonprofits are seeking mergers, acquisitions, collaborations, cutbacks and closings. Some analysts even argue that because of the long and recent economic prosperity in the U.S., the nonprofit sector has gotten too bloated with too many unsustainable nonprofit organizations. There are too many poorly performing ones and too many providing similar services. In any other competitively-driven market this would automatically lead to the contraction of the number of firms.

Hard Times Survival Guide

We end this section of coping strategies with some sage advice for nonprofits seeking to maintain their financial viability. These include:

- Sustaining Fundraising Efforts
- Stressing the needs of those you help
- Finding the stories that will influence your donors to give
- Staying in touch with people who have stopped giving
- Finding new donors in industries that are still expanding

- Innovating in finding ways to lower fundraising costs
- Cutting operating costs but sensibly not across the board
- Consider offering new products and services where there is recognized need

5. A National Policy Approach

We consider one more approach of a different nature that would aid nonprofit organizations in their fund raising activities and also help stimulate job creation in the slumping economy. The Case Foundation (2009) has put forth some policy recommendations to help nonprofits and also create more employment opportunities for Americans. These include:

- Pass the Serve America Act: It would triple to 250,000 Americans the opportunities for Americans to perform national and community service to meet compelling needs in the U.S., establish a tax incentive for employers who allow employees to take paid leave for full-time service, create "Encore Fellowships" to help retirees serve long-term, establish a Volunteer Generation Fund to help nonprofits organize more volunteers to meet demand, and provide support to social entrepreneurs.
- Adopt tax incentives to expand private giving and volunteering. Making the tax code nonprofit-friendly would help to keep up contributions from ordinary Americans. Some of the target incentives include: extending the IRA roller to allow those over 70 years of age to tax-free withdrawals to contribute to charity; creating a broad based nonprofit investment tax credit; and allowing taxpayers who do not itemize to claim a deduction for charitable contributions.
- Create a "Social Innovation and Compassion Capital Fund." This fund would provide capital to social entrepreneurs, invest in new ideas and approaches, and improve existing social equity systems. This would allow more innovation in the nonprofit community.
- Utilize nonprofit housing organizations and community development financial institutions to help in solving the nation's massive mortgage and foreclosure problems.

VI. CONCLUSION

This paper has provided an analysis of the impact of the Great Recession on nonprofit organizations while emphasizing those located in the NYC metropolitan region. Four key questions have been studied: What has been the overall impact of the Great Recession on nonprofit organizations?; How has the Recession impacted the fundraising capability of nonprofit organizations?; How well have different types of organizations weathered the Great Recession’s impact on their revenue sources?; and What strategies have nonprofit organizations found to be useful in surviving this severe downturn? The paper reviewed the impact of past recessions on the funding and financial viability of nonprofit organizations and then focused on the Great Recession (2008-present). This study differs from past studies of this issue because it uses quantitative data from rather than the usual survey method.

The four key questions raised in this study were answered as follows. First, we find overall that the Great Recession is having a more severe impact on nonprofit organizations than previous recessions. The reasons often given are the duration of high unemployment may last longer, and it may take many more years for the nation to fully recover its economic prosperity which was at its peak in 2007. This crisis is unprecedented in recent history (the last 70 years) in terms of scale and scope.

Second, fund raising has been particularly hard hit by the Great Recession. Foundations lost an average of 30% of their asset values during the fall 2009 stock market drop. This is much higher than what we have seen in previous recessions. The individual’s sense of economic security has been shaken because of large reductions in key assets (like homes), the rising and persistently high unemployment rate, and the large debt burden that remains on most American households. Finally, households face the losses in key assets such as housing and retirement savings. All of these make it less realistic to expect households to donate either as readily or as much. Moreover, federal, state and local governments have also suffered sharp reductions in tax revenues and other revenue sources. This has caused them to cut back their funding for nonprofits. For all of these reasons, we can expect funding to nonprofit organizations to continue to be difficult and the recession to be prolonged.

Third, many of these impacts have differed across the various nonprofit sectors. Some fared better than average including hospitals, health care institutions, higher education and human service organizations. Some fared much worse than average such as arts, culture and humanities, international, environmental, public and social benefit and mutual benefit organizations and religions. These differentials reflect the viewpoint that those organizations that provide direct human services are seen as more essential in the Great Recession and therefore are more readily funded. Also, large organizations (as measured by total assets) fared less well, and those that relied on program revenue were more stable. Those that relied on donations (direct public support) were hit the hardest.

Fourth, yet many nonprofit organizations have adopted strategic policies and programs to allow them to continue to be financially viable. Some initiated or expanded efforts to obtain donations from individual donors, to obtain state and /or local funding, or to obtain federal or corporate funding. Many have continued to emphasize donor relationships and maintained their communication efforts with their donors, foundations and similar type s of nonprofits. Collaboration, partnerships and consolidation with other nonprofits has also been attempted with some success. Some have successfully used strategic rethinking and planning to restructure their organizations, raise revenue and cut costs and thereby survive in these difficult economic times. This has allowed those that have adopted and implemented such measure to be able to continue doing the good work of providing the necessary services to those in need.

APPENDIX

Table 1: Number of Nonprofit Organizations in the United States 1999-2009

Table 1: Number of Nonprofit Organizations in the United States 1999-2009						
	1999		2009		Change	
	Number of Orgs.	Percent of All Orgs.	Number of Orgs.	Percent of All Orgs.	Number Change	Percent Change
All Nonprofit Organizations	1,202,573	100.0%	1,581,111	100.0%	378,538	31.5%
501 (c)(3) Public Charities	631,902	52.5%	1,006,670	63.7%	374,768	59.3%
501(c)(3) Private Foundations	77,978	6.5%	120,617	7.6%	42,639	54.7%
Other 501 (c) Nonprofit Orgs.	492,693	41.0%	453,824	28.7%	(38,869)	-7.9%

Sources: Urban Institute, National Center for Charitable Statistics and IRS Business Master File 1/2010

Table 2: Reporting Number of Public Charities in the United States 2007 and 2010

Table 2: Reporting Number of Public Charities in the United States 2007 and 2010							
		2007		2010		Change	
NTEE Code	Description	Number	Percent	Number	Percent	Number Change	Percent Change
A	Arts, Culture, and Humanities	37,922	11.1%	63,218	12.5%	25,296	66.7%
B	Education	62,101	18.1%	95,437	18.8%	33,336	53.7%
C	Environmental Quality, Protection & Beautification	7,795	2.3%	13,717	2.7%	5,922	76.0%
D	Animal-Related	6,776	2.0%	11,148	2.2%	4,372	64.5%
E	Health	23,421	6.8%	28,140	5.5%	4,719	20.1%
F	Mental Health, Crisis Intervention	9,112	2.7%	10,896	2.1%	1,784	19.6%
G	Diseases, Disorders, Medical Disps.	8,259	2.4%	12,519	2.5%	4,260	51.6%
H	Medical Research	2,198	0.6%	2,638	0.5%	440	20.0%
I	Crime, Legal Related	5,966	1.7%	8,563	1.7%	2,597	43.5%
J	Employment, Job Related	4,155	1.2%	4,845	1.0%	690	16.6%
K	Food, Agriculture, and Nutrition	3,349	1.0%	4,860	1.0%	1,511	45.1%
L	Housing, Shelter	17,081	5.0%	19,442	3.8%	2,361	13.8%
M	Public Safety	6,123	1.8%	8,237	1.6%	2,114	34.5%
N	Recreation, Sports, Leisure, Athletics	28,083	8.2%	51,612	10.2%	23,529	83.8%
O	Youth Development	8,166	2.4%	12,089	2.4%	3,923	48.0%
P	Human Services	42,609	12.4%	54,184	10.7%	11,575	27.2%
Q	International, Foreign Affairs, and National Security	6,425	1.9%	9,489	1.9%	3,064	47.7%
R	Civil Rights, Social Action, Advocacy	2,233	0.7%	3,192	0.6%	959	42.9%
S	Community Improvement, Capacity Building	16,330	4.8%	25,500	5.0%	9,170	56.2%
T	Philanthropy, Voluntarism, Grantmaking Foundations	16,231	4.7%	19,585	3.9%	3,354	20.7%
U	Science and Technology Research Institutes, Services	2,136	0.6%	3,754	0.7%	1,618	75.7%
V	Soclal Science Research Institute, Srvs.	828	0.2%	1,179	0.2%	351	42.4%
W	Public, Society Benefit - Multipurpose	3,590	1.0%	9,783	1.9%	6,193	172.5%
X	Religion Related, Spiritual Development	21,507	6.3%	31,310	6.2%	9,803	45.6%
Z	Unknown	658	0.2%	2,266	0.4%	1,608	244.4%
Total		343,054	100.0%	507,603	100.0%	164,549	48.0%

Sources: Urban Institute, National Center for Charitable Statistics and IRS Business Master File 4/2010 and NCCS Core File 2007

Table 3: Revenues of Public Charities in the United States 2007 and 2010

Table 3: Revenues of Public Charities in the United States 2007 and 2010							
		20	07	20	10	Cha	nge
NTEE	Description	Revenues	Percent	Revenues	Percent	Revenues	Percent
Code		($million)		($million)		Change	Change
A	Arts, Culture, and Humanities	32,568	2.3%	26,410	1.9%	(6,158)	-18.9%
B	Education	260,881	18.7%	221,016	16.1%	(39,865)	-15.3%
C	Environmental Quality, Protection	7,927	0.6%	7,395	0.5%	(532)	-6.7%
	& Beautification						
D	Animal-Related	5,578	0.4%	5,325	0.4%	(253)	-4.5%
E	Health	735,812	52.7%	780,990	56.7%	45,178	6.1%
F	Mental Health, Crisis Intervention	27,219	1.9%	27,840	2.0%	621	2.3%
G	Diseases, Disorders, Medical Disps.	14,443	1.0%	14,187	1.0%	(256)	-1.8%
H	Medical Research	11,434	0.8%	7,104	0.5%	(4,330)	-37.9%
I	Crime, Legal Related	6,736	0.5%	6,702	0.5%	(34)	-0.5%
J	Employment, Job Related	12,158	0.9%	13,193	1.0%	1,035	8.5%
K	Food, Agriculture, and Nutrition	6,201	0.4%	7,170	0.5%	969	15.6%
L	Housing, Shelter	19,532	1.4%	20,506	1.5%	974	5.0%
M	Public Safety	1,993	0.1%	1,933	0.1%	(60)	-3.0%
N	Recreation, Sports, Leisure, Athletics	11,263	0.8%	10,963	0.8%	(300)	-2.7%
O	Youth Development	7,033	0.5%	6,185	0.4%	(848)	-12.1%
P	Human Services	110,264	7.9%	114,023	8.3%	3,759	3.4%
Q	International, Foreign Affairs,	28,405	2.0%	27,968	2.0%	(437)	-1.5%
	and National Security						
R	Civil Rights, Social Action, Advocacy	2,066	0.1%	2,066	0.2%	-	0.0%
S	Community Improvement, Capacity	15,722	1.1%	14,693	1.1%	(1,029)	-6.5%
	Building						
T	Philanthropy, Voluntarism,	38,016	2.7%	20,345	1.5%	(17,671)	-46.5%
	Grantmaking Foundations						
U	Science and Technology Research	16,709	1.2%	17,222	1.3%	513	3.1%
	Institutes, Services						
V	Social Science Research Institute, Srvs.	2,223	0.2%	2,214	0.2%	(9)	-0.4%
W	Public, Society Benefit - Multipurpose	10,625	0.8%	9,374	0.7%	(1,251)	-11.8%
X	Religion Related, Spiritual Development	12,456	0.9%	11,188	0.8%	(1,268)	-10.2%
Z	Unknown	188	0.0%	392	0.0%	204	108.5%
Total		1,397,452	100.0%	1,376,404	100.0%	(21,048)	-1.5%

Sources: Urban Institute, National Center for Charitable Statistics and IRS Business Master File 4/2010 and NCCS Core File 2007

Table 4: Distribution of 11 Nonprofit Organizations: NYC PMSA

Table 4: Distribution of 11 Non-Profit Organization		
Groups by number and percentage: NYC PMSA		
By Group	Number	Percent
Arts, Culture and Humanities	93	11%
Higher Education	45	5%
Education	122	15%
Hospitals	49	6%
Environment	17	2%
Health	136	16%
Human Services	203	24%
International	49	6%
Mutual Benefits	5	1%
Public and Social Benefits	91	11%
Religion	19	2%
Total	829	100%

Source: IRS Statistics of Income drawn for IRS990 forms filed by nonprofit organizations in the greater New York metropolitan region using the National Taxonomy of Exempt Entities (NTEE).

Table 5: Percentage range by NTEE Major group 12: NYC PMSA

Table Showing Percentages by MAJOR Group

Table 5: Percentage range by NTEE Major group 12					
	Top 25 %	**2nd 25%**	**3rd 25%**	**Bottom 25%**	**Total Sample of Orgs (N)**
By Group					
Arts, Culture & Humanities	19	7	31	36	93
% of Total	**20.43%**	**7.53%**	**33.33%**	**38.71%**	
Higher Education	8	19	10	8	45
% of Total	**17.78%**	**42.22%**	**22.22%**	**17.78%**	
Education	27	28	31	36	122
% of Total	**22.13%**	**22.95%**	**25.41%**	**29.51%**	
Hospitals	24	16	7	2	49
% of Total	**48.98%**	**32.65%**	**14.29%**	**4.08%**	
Environment	2	4	6	5	17
% of Total	**11.76%**	**23.53%**	**35.29%**	**29.41%**	
Health	50	38	25	23	136
% of Total	**36.76%**	**27.94%**	**18.38%**	**16.91%**	
Human Services	45	74	43	41	203
% of Total	**22.17%**	**36.45%**	**21.18%**	**20.20%**	
International	6	8	19	16	49
% of Total	**12.24%**	**16.33%**	**38.78%**	**32.65%**	
Mutual Benefit	2	0	2	1	5
% of Total	**40.00%**	**0.00%**	**40.00%**	**20.00%**	
Public and societal benefit	21	12	25	33	91
% of Total	**23.08%**	**13.19%**	**27.47%**	**36.26%**	
Religion	4	1	8	6	19
% of Total	**21.05%**	**5.26%**	**42.11%**	**31.58%**	
					829

Source: Author calculations

Table 6: Average of variables within each quartile range: NYC PMSA

Table 6: Average of variables within each quartile range					
		Top 25 %	2nd 25%	3rd 25%	Bottom 25%
AVG A030		$102,798,869	$106,514,310	$180,283,893	$176,417,987
Tot Assets BOY					
AVG Q230		697	726	420	171
# of Employees					
AVG R050+R030/R270		65.03%	72.43%	45.98%	18.70%
Dependence on gov't $					
AVG R050/R270		54.26%	61.32%	38.37%	12.71%
Dependence on program service rev					

The sample presented here includes organizations from across the NTEE major group 12.
Percentage quartiles were determined and broken up into four(4) quartiles.
Source: Author calculations

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