The Financial Health of Community-Based Development Organizations

Using Internal Revenue Service Tax Data to Assess Sector Health

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The Grounding Values Study

Grounding Values was launched by the National Alliance of Community Economic Development Associations in partnership with the Urban Institute to study the financial health, production, programs, and services of community-based development organizations throughout the United States. The research includes tax data analysis, a national census survey, and qualitative interviews around key themes. The study is informed by a notable advisory committee of national community development and affordable housing experts, advocates, and institutions. Products include reports, fact sheets, policy briefs, and public use data sets; they are available at https://www.urban.org/projects/grounding-values-cbdos.

Nonprofit community-based development organizations (CBDOs) are critical to sustaining reinvestment and promoting justice in historically disadvantaged communities across the US. This study examines CBDO financial health, including funding flows, leverage, and liquidity by organizational size, geographic region, and real estate holdings, using tax data from the Internal Revenue Service. Despite overall sector financial growth and health, we find signs of distress, including income struggles, funding disruptions, cash shortages, highly leveraged assets, and insolvency for certain groups of CBDOs. Boosting funding and technical assistance can help stabilize CBDOs at risk, and future research can pinpoint challenges and help tailor solutions to needs.

Key Findings

- **The CBDO sector has grown steadily in revenues and assets over time**. This holds true despite the Great Recession of 2007–09, which may have slightly increased the number of CBDO closures but did not reduce the financial growth of the CBDO sector overall.
- **However, there are signs of financial stress**. These include shrinking operating margins and declining net incomes over time, on average, coupled with one out of every three CBDOs experiencing a shortage of months of cash on hand and 16 percent reporting insolvency in 2018 (that is, their total liabilities exceeded their total assets).
- **A small number of large organizations hold most of the sector's resources**. These large CBDOs are less likely than small organizations to experience financial disruptions, such as large drops in revenues or expenses in a single year. They also have higher assets but hold higher levels of debt and have less months of cash on hand, on average. Even they can be vulnerable to closing, which could have substantial negative consequences for the communities and people they serve.
- **Small CBDOs are in a more precarious financial position than large ones**. Small CBDOs earn a larger share of their income than large organizations, which rely more on donations. They also have more months of cash on hand and less debt. But they also own fewer assets than large CBDOs and are more likely than larger organizations to experience negative net income, financial disruptions, and insolvency. Although many small businesses face financial uncertainty, when these mission-based nonprofits close, disinvested communities can lose a key provider of services, programs, and development.
- **Few regional financial differences exist, but they generally reflect the distribution of CBDOs across the country by size.** Organizations in the West are sparser, larger, and more financially robust, while CBDOs in the South are more plentiful, generally smaller, and have higher levels of cash but fewer leveraged assets. The number of CBDOs per population living below the federal poverty level is also lowest in the South.
- **Real estate holdings are a key differentiator in CBDO financial health.** CBDOs that hold a larger share of their assets in land, buildings, and equipment experience fewer sudden financial shocks relative to other CBDOs their own size, likely because of steady revenues and expenses characteristic of real estate business management. However, they face higher leverage (i.e., liabilities greater than 50 percent of their total assets), lower liquidity, and higher rates of insolvency.
- **Vulnerabilities within the CBDO sector point to the need for increased supports to sustain and grow the sector's financial health.** Expanding financial resources and technical assistance can help at-risk CBDOs, but additional research is needed to expand recommendations.

Introduction

Community-based development organizations (CBDOs), also known as community development corporations, emerged in the 1960s as a community-driven response to systematic public and private disinvestment in communities across the United States (Halpern 1995; O'Connor 1999). The businesses and residents that call these communities home were cut off from capital and denied access to basic needs and infrastructure, such as adequate housing, quality education and workforce training, and roads and public transportation. Nonprofit CBDOs formed to support local housing and economic development and reinvest in community priorities (Keating, Krumholz, and Star 1996). To launch this work, they leveraged philanthropic funding; new sources of government funding, such as the Special Impact Program of the Office of Economic Opportunity in the 1960s and 1970s; and community investments from banking institutions required by the Community Reinvestment Act beginning in 1977.[1] Over time, their focus has shifted toward affordable housing development, although CBDOs continue to meet a variety of community needs (Erickson 2009).

The success of CBDOs in fulfilling their missions depends on accessing necessary financial resources to develop real estate and provide relevant programming and services to the communities they serve (Glickman and Servon 1998). However, little is known about the financial capacities and characteristics of these nonprofits today or over time, either nationally or broken down by geographic region and organizational size. Further, the Great Recession of 2007 to 2009—driven by a national housing crisis—may have adversely affected the financial health of CBDOs, particularly those engaged primarily in real estate development activities. Building this knowledge is critical for not only understanding the overall health of the sector but also for understanding where further investments may help bolster and sustain CBDO activities.

STUDY POPULATION AND METHODS

To better understand the financial characteristics and health of the nonprofit CBDO sector today and over time, this study is the first to link CBDOs to their financial data reported to the Internal Revenue Service (IRS) to maintain their tax-exempt status. Drawing on contemporary and historical lists of CBDOs, we created master lists of CBDOs with tax filings in 2018 and a panel of CBDOs over time that had filed since 2001. In total, we analyzed the 5,720 tax filings from CBDOs submitted in 2018; 6,897 CBDOs were included in the full panel between 2001 and 2019. The full methodology for creating the list and developing and implementing the tax data analysis, summarized briefly below, is available in *The Financial Health of Community Based Development Organizations: Technical Report*. (Lo, Scally, and Lecy 2022).

The analysis in this brief relies on tax data compiled from three sources: the IRS 990 Filings on Amazon Web Services' (AWS) Registry of Open Data, the IRS Statistics of Income (SOI) study data for the nonprofit sector, and the National Center on Charitable Statistics (NCCS) core files compiled and maintained by the Urban Institute. The full 2018 dataset includes comparable variables from both full 990 and 990EZ tax records for organizations that filed in 2018. Table 1 breaks down the number of records by source and type of filing. The over-time analysis relies on a union of all three data sources: The NCCS files for 2001–10 and SOI and AWS files for 2010–19.

TABLE 1

Number of CBDO Tax Records by Type and Source, 2018

Tax data source	EZ Filer	Full 990 Filer	Total
Amazon Web Services	145	4,784	4,929
Statistics of Income	66	725	791
Total	211	5,509	5,720

Source: Authors' tabulation.

To prepare the 2018 data for analysis, missing values needed to be addressed. Tax data forms, by law, must be fully completed, so there are never any truly missing data except where data sources were merged (e.g., in variables that were available for e-filing organizations through AWS data but not for paper-filing organizations from the SOI) and for fields where EZ filers were not required to report data. Instead, in all cases where variables were available for both paper and e-filers and for full 990 and 990 EZ filers, what may appear as missing values are actually reported zeroes. Consequently, all data in the following tables include the full population of data from all 5,720 CBDOs, except where otherwise noted. Exceptions include reporting on metrics that rely on variables not included in the 990EZ, in which case the 211 CBDOs that used the EZ were omitted, or reporting on metrics that rely on variables only available for E-filers, in which cases the 791 CBDOs that filed on paper from the SOI files were omitted. For the over-time analysis, all EZ filers were omitted, and only variables that existed in all three datasets were used. Consequently, all missing values in the panel dataset were replaced with zeroes. The over-time analysis raw financial characteristics were adjusted for inflation to 2019 dollars.

Additionally, we ensured any outliers in both the 2018 and over-time datasets (e.g., the largest and smallest organizations) with extremely high or low values did not unduly bias (upward or downward) calculated averages and ratios for the CBDO sector. To do this, we created "winsorized" replicas of each variable, which means that any organization with a value above the 95th percentile was instead assigned the 95th percentile value, and any organization with a value below the 5th percentile was instead assigned the 5th percentile value. When analyzing directly reported 990 values—such as average total expenses or revenues—we used the winsorized versions of the variables. However, when constructing financial metrics, such as ratios, we used the raw values as inputs and then winsorized the metric outputs to account for any outliers.

STUDY LIMITATIONS

Although this study is useful for understanding the overall financial health of the CBDO sector now and over time, there are important questions about CBDO activities and finances these data cannot answer, as well as other important limitations to the findings. These financial data cannot

- assign CBDO work to specific geographic service areas or populations;

- describe the specific type of activities CBDOs do, such as indicating whether they primarily focus on real estate development, community programs and services, or both;
- measure the quality or effectiveness of CBDO work;
- present a single objective measure or score of CBDO financial health or a numerical share of CBDOs that are healthy or unhealthy, because of the complex nuances of financial health, the importance of external factors for financial health (e.g., macreconomic, community, or local nonprofit market share factors) that are beyond the scope of this study (Prentice 2016), and the lack of a tested index or scale for the nonprofit sector as a whole or for CBDOs specifically;
- describe the full financial experiences of the full CBDO field over time, because our analysis is based on samples of CBDOs drawn from 2004, 2009, and 2018 rather than a comprehensive universe of CBDOs created in each year from 2001 through 2019; or
- provide evidence on the reasons behind CBDO financial characteristics, because we did not collect or compile additional quantitative or qualitative data.

A statistical comparison of CDBOs to the nonprofit sector as a whole was beyond the scope of this work. However, established nonprofit benchmarks are provided where available in the literature. Other limitations include limited data on smaller organizations that are not required to file a full 990 form and incomplete or incorrect data on tax forms.

REPORT OVERVIEW

In this brief, we first describe basic financial characteristics of the CBDO sector today and over time, including how the sector fared during the Great Recession of 2007–09. We then take a close look at revenues flowing in and expenses paid out on an annual basis and over time, and how CBDOs build assets and leverage them for growth. A summary assessment of sector financial health by organizational size, geographic region, and real estate holdings follows. We conclude with recommendations for increasing supports to improve CBDO financial health.

Basic Sector Characteristics Today and Over Time

CBDOs Today

Our study captures 5,720 CBDOs that filed financial reports with the IRS in 2018. On average, these organizations were around 28 years old and had 41 staff members (box 1). The sector reported $27.7 billion in annual revenues brought in from donations, earned income, and other sources of income, and $23.8 billion in annual expenses paid out for salaries and other operating costs. Total assets, including cash and property already in hand, equaled $54.3 billion, while CBDOs reported $27.5 billion in liabilities that they owe to others, such as repayments of debt obligations.

BOX 1

CBDOs By the Numbers, 2018

- Number of organizations in study active in 2018: 5,720
- Average age: 28.4 years
- Average number of staff: 41
- Financial characteristics
    - Total revenues: $27.7 billion
    - Total expenses: $23.8 billion
    - Total assets: $54.3 billion
    - Total liabilities: $27.5 billion

Dividing CBDOs into four groups of equal numbers of organizations (1,430) based on their total annual expenses—an approach tailored to the smaller overall size of CBDOs compared to the nonprofit sector as a whole[2]—highlights how organizational size reflects age and staffing as well as overall organizational finances (table 2). The smallest organizations ($0 to 266,549 in annual expenses) were the youngest on average, at around 20 years old, while the largest ($3.3M to 479M in annual expenses) were the oldest, around 38 years old. The number of staff employed grew with organization size, with the smallest CBDOs employing an average of just 1.2 staff (with 50 percent having no employees, discussed in the technical report) and the largest employing an average of 131.8 staff (with a median of 99; again see the technical report for more detail).[3]

TABLE 2

Basic CBDO Financial Characteristics by Size and Region, 2018

	# of CBDOs	Age (average)	# of staff [a] (average)	Revenues (average)	Expenses (average)	Assets (average)	Liabilities (average)
All CBDOs	5,720	28.4	41.2	$3,276,647	$3,075,503	$6,870,844	$3,023,778
By size (expense quartiles)							
Small	1,430	20.2	1.2	$154,237	$117,639	$1,318,947	$511,348
Mid-small	1,430	24.6	4.8	$600,542	$517,087	$2,804,549	$1,489,985
Mid-large	1,430	29.6	21.2	$1,979,779	$1,744,154	$6,550,613	$2,954,893
Large	1,430	37.9	131.8	$10,400,000	$9,923,133	$16,800,000	$7,138,884
By census region							
Midwest	1,535	29.6	41.8	$3,023,471	$2,831,834	$5,512,291	$2,191,666
Northeast	1,396	29.8	41.8	$3,356,161	$3,172,642	$7,004,303	$3,128,180
South	1,670	27.1	38.1	$3,000,669	$2,855,139	$5,834,475	$2,413,387
West	1,105	26.9	44.7	$3,970,307	$3,648,889	$10,183,482	$4,676,183

Source: Author analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data.

Notes: See page 6 for expense quartile size ranges. For a full list of states in each census region, see the technical report. Territories are not included in census regions, so N=5,706 for regional analyses.

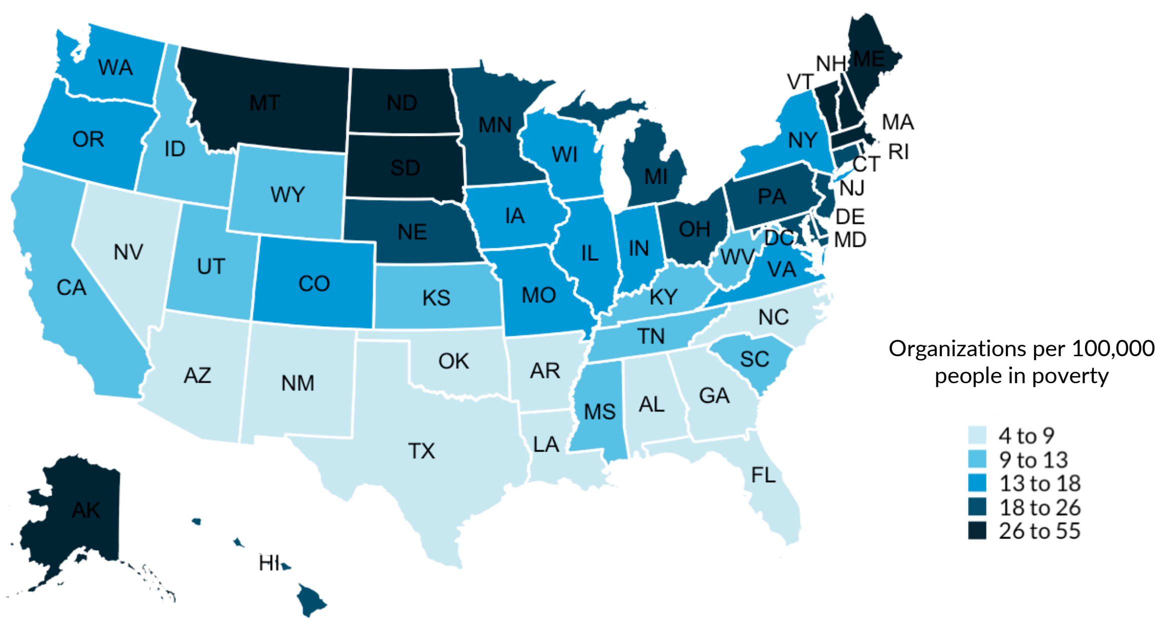
[a] Number of employees is only available for full 990 filers, so N = 5,509.

Differences by size. The CBDO sector's financial resources are substantially concentrated in the largest 25 percent of organizations. Large CBDOs accounted for 84 and 86 percent, respectively, of the sector's total revenues and expenses in 2018, and 71 and 73 percent of total assets and liabilities (see the technical report for more). In contrast, the smallest 50 percent of organizations accounted for just 4 percent of the sector's cumulative revenues and expenses and 11 percent of the sector's assets and liabilities (see the technical report for more detail). Average revenues and expenses of small organizations were equal to between 1 and 2 percent of the average resources brought in and spent annually by large organizations (table 2). The assets owned and liabilities owed by the average small organization was about 7 to 8 percent of those of an average large organization.

Differences by region. To understand possible regional differences in CBDOs financial characteristics, we selected the four primary census regions to be consistent with prior studies of CBDOs and to reflect general historical and cultural differences in the US. The South had the most CBDOs (1,670) and the West had the fewest (1,105; table 2). However, when looking at populations with income below the federal poverty level, the South region is underserved by CBDOs, while the Midwest and Northeast regions have a stronger CBDO presence (figure 1).

FIGURE 1

Number of CBDOs per 100,000 People with Income below the Federal Poverty Level, 2018



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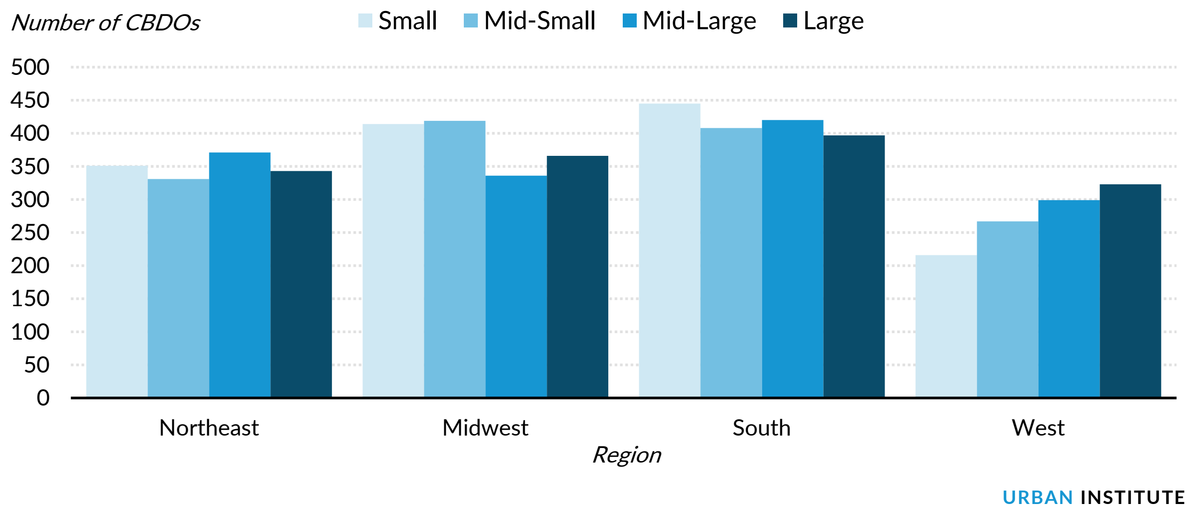
Source: Author analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data and the 2016–20 American Community Survey.

Organizations in the West tended to be larger, and organizations in the South tended to be smaller and had higher shares of populations experiencing poverty to support (figure 1 and figure 2). The financial characteristics of the West, with higher average revenues, expenses, assets, and liabilities, reflect this concentration of larger organizations (table 2). The other regions are closer to the national average, reflecting a more even size distribution of organizations within their regions. Nationally, the Northeast draws in a higher share of total revenues (28 percent) and pays out a higher share of total expenses (29 percent), but the West has a higher share of total national assets (33 percent) and liabilities (35 percent). (See the technical report for further discussion.)

FIGURE 2

Distribution of CBDOs by Size (Expense Quartile) and Region, 2018



Source: Author analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data using US Census Bureau regional definitions.

Notes: See page 6 for definitions of expense quartile size ranges. For a full list of states in each census region, see technical report. Territories are not included in census regions, so N=5,706 for regional analyses.

CBDOs over Time

We created a dataset of CBDO tax records over time by connecting lists of CBDOs from 2004, 2009, and 2018 together and matching these to historical tax filings to assess rates of entry into the field, rates of organizations becoming inactive or losing their nonprofit status (which takes three years of not filing a 990), and their financial characteristics over time. Because of difficulties assembling comparable tax datasets across years, we assessed CBDOs in three-year increments from 2001 to 2019.

Organizational closures and establishments. The number of active organizations appearing in the panel data from 2001 to 2019 varied over time, from a low of 4,998 in 2001 to a high of 5,602 in 2010 (table 3). The periods of 2010 to 2012 and 2016 to 2018 saw the most CBDO closures, with closures in the former time frame reflecting a potential effect of financial difficulties during the Great Recession. A total of 416 organizations—7 percent of all CBDOs filing—became inactive after 2010. However, a higher number and share of CBDOs became inactive between 2016 and 2018. New CBDOs also entered the panel each year, ranging from a low of 165 new organizations filing in 2019 to a high of 638 in 2004. And though these numbers only reflect survivors, they indicate that the rate of new CBDO formation has declined over time.

TABLE 3

Number and Share of CBDOs in Panel Data Filing 990s for First and Last Time by Year, 2001–19

	2001	2004	2007	2010	2013	2016	2019
Number of CBDOs in panel data	4,998	5,434	5,588	5,602	4,971	5,175	5,074
Number and percent of CBDOs, first year in panel data	4998 (100%)	638 (12%)	386 (7%)	298 (5%)	193 (4%)	219 (4%)	165 (3%)
Number and percent of CBDOs, last year in panel data	134 (3%)	196 (4%)	287 (5%)	416 (7%)	205 (4%)	585 (11%)	5,074 (100%)

Source: Authors' analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data.
Notes: Because of how the panel was constructed, these numbers miss organizations that were both established and closed between the years of 2010 and 2016, therefore understating the number of CBDOs in these years as well as the number and share of new entrants and exits. Given the three-year analysis windows, these do not reflect the first or last true year an organization filed but the first or last our analysis captured them. For further discussion on limitations, see the technical report.

Financial growth of surviving organizations. Financial growth in the sector continued after the Great Recession. For those organizations that survived over time (table 4), average real revenues and real expenses grew at the same rate (18 percent) between 2001 and 2019, while average total assets grew by over half in real terms (54 percent) and average liabilities grew by over a third (36 percent). This translates to roughly 1 percent growth each year in revenues and expenses and 2 percent annual growth in assets and liabilities (adjusted for inflation). Growth in average revenues and assets continued during and after the Great Recession, although filings only reflect organizations that remained active during this time.

TABLE 4

CBDO Financial Characteristics, 2001 to 2019 (2019 dollars)

	Number of active CBDOs	Revenue (average)	Expenses (average)	Total assets (average)	Liabilities (average)
2001	4,998	$2,828,547	$2,633,188	$4,230,998	$2,143,759
2004	5,434	$2,829,148	$2,665,692	$4,614,363	$2,322,301
2007	5,588	$2,902,622	$2,717,381	$4,996,401	$2,502,150
2010	5,602	$3,216,416	$3,012,288	$5,449,088	$2,704,820
2013	4,971	$3,279,165	$3,074,549	$5,974,053	$2,882,388
2016	5,175	$3,214,662	$3,010,560	$6,204,501	$2,875,134
2019	5,074	$3,348,489	$3,114,281	$6,515,452	$2,906,349
Percent change (2001–19)	NA	18%	18%	54%	36%

Source: Authors' analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data.
Notes: The number of organizations in 2019 (5,074) is lower than the full analysis in 2018 (5,720). This reflects the fact that the panel data do not contain the 211 EZ filers and the additional difference may reflect the process of creating the dataset (we matched CDBOs to their IRS Employer Identification Numbers based on lists of active organizations in 2016–18, thereby

missing those that would have formed in 2019) or a large loss of organizations between 2018 and 2019. For limitations on this analysis, see the technical report.

Funding Flows: Revenues and Expenses

The money flowing into and out from a CBDO on an annual basis is a key component of financial health. Analyzing these flows allows us to see where an organization is getting its resources from—donations, earned income, or other sources—and how well these revenues cover the costs of the organization's activities each year (box 2). In this section, we analyze CBDO sources of revenues, the ability of these revenues to cover expenses, and the capacity of the CBDOs to sustain operations during short-term revenue interruptions. We highlight some key findings and implications by organization size and region and over time.

BOX 2

Key Definitions and Metrics: Revenues and Expenses

- Major revenue sources
    - Donations or contributions: Cash or property received to help a nonprofit organization fulfill its mission and for which the donor receives nothing of value in return. On the 990, these include government grants; campaign and membership collections; fundraising event revenues; and all other gifts, cash, and contributions.
    - Earned income: Program services revenues, such as fees collected from the sale of goods and services. For CBDOs, these include sources such as developer fees, home sales, management fees or other earned income. Our calculations of earned income also included net rental income.
- Expenses: The cost of all operations, including salaries and wages, travel, administrative expenses, depreciation, interest, and purchases of goods and services
- Net income: Remaining income after all expenses are paid
    - Negative net income: When expenses exceed revenues
    - Margin: The share of total revenues covered by net income
- Self-sufficiency: How much of organization expenses are covered by earned income, and therefore not reliant on donations or contributions

Differences by Size

Donations are a key source of income for larger organizations, with government sources playing a large role for some organizations (tables 5 and 6). Overall CBDOs reported receiving a collective $9.96 billion in revenues from government grants (and/or contracts) in 2018, with 90 percent of that total ($8.99 billion) going to large CBDOs. Nonprofits receiving a high proportion of their revenues from donations (over 50 percent) can experience greater volatility than those that rely more on earned income (Carroll and Stater 2009). Greater reliance on donations reduces organizational self-sufficiency, or the share of their expenses covered with earned income. Additionally, as organizations rely more on government and foundation donations for their revenue, their vulnerability to macroeconomic shocks and government policy changes, which reduce donations and government grants and contracts, increases. Barely half of CBDOs reported government income (52 percent) in 2018, and the rest reported receiving no government income at all (table 6). Over one-third of the organizations that did receive government grants and contracts were large organizations, and they reported receiving an average of almost $5.0 million from the government. Government sources can be restricted to covering specific expenses, so they are not as flexible as other types of revenues (e.g., a grant for covering home repair costs cannot be redirected to cover debt service for new construction).

TABLE 5

CBDO Median and Average Revenues and Expenses by Organization Size, 2018

	All CBDOs	Small	Mid-small	Mid-large	Large
Revenues					
Total revenue (median)	$915,694	$103,264	$495,211	$1,628,986	$8,687,713
Total revenue (average)	$3,276,647	$154,237	$600,542	$1,979,779	$10,400,000
Donated or contributed income (average)	$1,745,612	$71,787	$247,337	$978,503	$5,438,458
Government grants for CBDOs reporting receiving them (average)	$2,166,842	$100,190	$289,378	$824,559	$4,927,909
Earned income (average)	$826,602	$45,893	$202,128	$675,213	$2,383,172
Expenses					
Total expenses (median)	$854,298	$109,840	$496,914	$1,543,947	$8,248,865
Total expenses (average)	$3,075,503	$117,639	$517,087	$1,744,154	$9,923,133

Source: Authors' analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data.
Notes: See page 6 for definitions of expense quartile size ranges. All organizations reporting $0 in expenses and revenues are included in these averages. *N* = 5,720 overall and *N* = 1,430 for each quartile.

Smaller organizations' revenues are more heavily composed of earned income, but over half experience negative net income, and they operate at negative margins on average (table 5). Indeed, the share of CBDOs reporting negative net income in a year has remained roughly constant, between 44 and 47 percent since 2004 (discussed further in the technical report). Given the general unevenness of nonprofit revenues year over year, one bad year for revenues does not necessarily mean that a nonprofit is in financial jeopardy. In fact, nonprofit organizations—mostly smaller ones—can expect their revenues to contract about one out of every three years of operation, on average (Lecy 2010). At the same time, the more limited total cash on hand for smaller organizations combined with smaller total assets to leverage and the frequent potential for operating at a deficit may put smaller CBDOs at risk financially.

TABLE 6

CBDO Average Revenue and Expense Ratios and Net Income by Organizational Size, 2018

	All CBDOs	Small	Mid-small	Mid-large	Large
Donations and contributions					
Donation income share	50%	38%	48%	54%	61%
Share of CBDOs reporting receiving government grants [a]	52%	22%	44%	64%	78%
Government grants share of total revenue for those reporting receiving more than $0 [a]	30%	17%	26%	30%	46%
Earned income					
Earned income share	43%	44%	47%	43%	36%
Self-sufficiency ratio [a]	0.35	0.32	0.36	0.37	0.34
Net income					
Average net income	$146,596	$29,169	$57,439	$155,563	$344,211
Share of CBDOs with negative net income	47%	53%	53%	44%	36%
Net Income to total assets ratio	0.01	0.06	0.04	0.02	0.02
Margin	-0.01	-0.03	-0.05	0.01	0.03
Expense coverage					
Average cash on hand	$1,357,012	$223,253	$448,392	$1,202,841	$3,553,561
Share with <3 months of cash on hand	36%	27%	38%	32%	46%

Source: Author analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data

Notes: See page 6 for definitions of expense quartile size ranges. *N* = 5,720 overall and *N* = 1,430 for each quartile.

[a] These variables are only available for organizations that filed full 990s, not the 211 EZ filers.

Organizations' ability to survive financial shocks—both over time as well as within a single year—can be indicative of overall financial stability and health. Research has found that nonprofits with lower net income to total asset ratios are more financially stable over time because they have greater asset reserves available to convert to cash in the face of a financial shock (Prentice 2016; Keating et al. 2005; Tuckman and Chang 1991). By this measure, CBDOs of all sizes seem stable, on average, with low net income to total assets ratios (table 6). Larger organizations, though, are slightly more insulated against shock, and small organizations are more vulnerable. One out of five small CBDOs experienced a 25 percent drop in revenues in 2018 (table 7). A higher share of small CBDOs also experienced a substantial drop in their expenses, potentially indicating a major disruption in organization programs and services and greater overall financial vulnerability (table 7) (Keating et al. 2005).

Although it takes only a small change to disrupt the operations of small organizations with low revenues and low expenses on average, it might be more concerning to find larger organizations experiencing distress. One out of every three large organizations experienced negative net income and operated on small margins in 2018 (table 6). And 75 of them (6 percent) reported a funding disruption (a 25 percent drop in revenues over 12 months; for large organizations, this is a drop of between $1.1 and $28.3 million) while 26 of them (2 percent) experienced programming disruptions (a 25 percent drop in expenses over 12 months; for large organizations, this is a drop of between $1.3 and $16.8 million) (table 7).

TABLE 7

Number and Share of CBDOs Experiencing Funding Flow Shocks by Size, 2018

Funding flow shock	Indicator	All CBDOs	Small	Mid-small	Mid-large	Large
N		5,720	1,430	1,430	1,430	1,430
Funding disruption	25% drop in total revenues within 12 months	670 (12%)	283 (20%)	171 (12%)	141 (10%)	75 (6%)
Program disruption	25% drop in total expenses within 12 months	409 (7%)	220 (16%)	95 (7%)	68 (5%)	26 (2%)

Source: Authors' analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data.

Notes: The expense quartiles are small ($0 to $266,549), mid-small ($266,581 to $854,080), mid-large ($854,515 to $3,329,914), and large ($3,330,877 to $479,000,000). Funding and program disruption definitions come from Keating et al. (2005).

Having cash on hand to cover operating expenses while weathering short-term revenue disruptions is critical in the unpredictable funding environments that CBDOs work within. Grants may take time to materialize after being awarded, reimbursements may be late, and home sales might be delayed if a buyer does not qualify for the mortgage they need. Not surprisingly, larger CBDOs have more total cash on hand to cover these payment delays (table 5). But larger CBDOs also have fewer months of cash on hand relative to their expenses, with 46 percent having less than three months of cash to cover interruptions in revenues, an accepted standard for financial sustainability in the nonprofit sector.[4] And although it seems that fewer small organizations have insufficient reserves for short-term cash flow needs, 50 percent of small organizations still had less than $60,790 on hand in 2018, while 50 percent of large organizations have over $2.7 million (see the technical report for more detail).

Differences by Region

There were few differences in revenues and expenses by census region (see the technical report for more detail). Organizations in the West and Northeast had significantly higher average earned income ($1.1 million and $975,548, respectively) and greater self-sufficiency (42 and 39 percent, respectively) than those in the South and Midwest. CBDOs in the Midwest received higher shares of revenues from government grants and contracts. Average net income was significantly higher in the West ($226,585) and lower in the South ($107,971). In terms of other indicators of potential financial distress, there were small differences in the shares of CBDOs by region with negative net incomes and in the shares that experienced funding or program disruptions. No region had positive average operating margins.

Change over Time

Over time, CBDOs have increased their self-sufficiency and reduced their dependency on donations, even though donations have remained relatively stable in inflation-adjusted dollars (table 8). The share of revenues from earned income increased 10 percent from 2001 to 2019, while the share from donations decreased from a high of 62 percent in 2001 to a low of 51 percent in 2019. Both average net income and the share of CBDOs experiencing negative net income has varied over time with no clear trend, though organizations' margins have decreased dramatically.

TABLE 8

CBDO Revenue Ratios and Net Income, 2001–19 (2019 Dollars)

	2001	2004	2007	2010	2013	2016	2019
Donations and contributions							
Donated income (average in millions)	$2.37	$2.29	$2.34	$2.85	$2.72	$2.49	$2.75
Donation income ratio	62%	58%	55%	57%	54%	52%	51%
Earned income							
Earned income ratio	35%	39%	41%	41%	43%	45%	45%
Self-sufficiency ratio	34%	36%	36%	38%	39%	39%	39%
Net income							
Average net income	$158,288	$123,859	$136,648	$144,280	$125,794	$138,467	$153,194
Share with negative net income	36%	44%	42%	44%	47%	45%	45%
Margin	0.08	0.04	0.04	0.03	0.01	0.01	0.01

Source: Authors' analysis of National Center for Charitable Statistics Core Data Files, IRS Registry of open data on Amazon Web Services, and IRS Statistics of Income 990 data for every three years between 2001 and 2019.

Notes: Information on government grants is not available over time.

Leverage and Liquidity: Assets and Liabilities

Although annual flows are a helpful indicator of financial stability year over year, organizational growth is facilitated by building assets and being able to leverage those assets, making investments that further expand the organization's asset portfolio. Achieving the delicate balance of utilizing assets for growth without overcommitting assets and falling into unmanageable debt is key. This next section will review CBDO financial metrics related to asset creation, asset types, asset liquidity, asset leverage, and vulnerability because of asset shocks or weak financial management.

BOX 2

Key Definitions and Metrics: Assets and Liabilities

- **Total assets:** Everything that a CBDO owns and its combined value, including cash and savings; any money owed to the organization; prepaid expenses (e.g., advance payments on rent, insurance, or pensions); materials or goods for later sale; land, buildings, and equipment; and investments.
    - Liquid asset: One that can be sold quickly without a loss in value (e.g., cash, stocks, or inventory)

    - Illiquid asset: One that requires conversion or significant expense of time or money to sell (e.g., bonds, real estate, or pension investments).
- **Liabilities:** Any type of debt held by the organization, including any money the organization owes to another entity through credit, pass-through grants, escrow holdings, or traditional loans; property mortgages; or tax-exempt bond liabilities. Liabilities can be either short-term (e.g., some accounts or grants payable) or long-term (e.g., mortgages).
- **Net assets:** The total assets owned by an organization less any liabilities. This is the equivalent of an organization's equity in all its assets.
    - Unrestricted net assets: Can be used for general expenses or any other legitimate purpose of the nonprofit.
    - Restricted net assets: Assets typically earmarked by a donor for a specific program.
- **Select leverage metrics:**
    - Current ratio: An organization's short-term assets (e.g., cash and savings) divided by its short-term liabilities (short term liabilities are traditional loans and grants an organization owes while long term liabilities are mortgages held and bonds issued).
    - Debt-to-asset ratio: An organization's total liabilities divided by its total assets.
    - Endowment ratio: An organization's net assets divided by its total assets.
    - Insolvency: When an organizations' total liabilities exceed its total assets (i.e., net assets are less than $0).

Source: See technical report for financial metric definitions and sources. Information on 990 categories summarized from "Form 990 Schedules, Commentary, and IRS Instructions: Return of Organization Exempt from Income Tax, Balance Sheet," National Association of College and University Business Officers, accessed August 29, 2022, https://federaltaxissues.conferencespot.org/form-990/f990-15/s2/sss13-1.3148139.

Differences by Size

The CBDO sector collectively holds $54.3 billion in total assets, which is roughly $6.8 million per organization. However, the distribution of these assets across organizations is highly concentrated in large organizations (table 9), with small organizations holding an average of $1.3 million and the average large organization holding over ten times that amount at $16.8 million. These averages, though, are all higher than the median (i.e., the averages are skewed upward), which indicates a small number of organizations within each expense quartile hold significantly more assets than the majority of organizations in the quartile. The fact that this uneven or skewed distribution is the same across all size quartiles further indicates that organizational asset growth is not linear but exponential. Liabilities are similarly skewed (i.e., the average is higher than the median, indicating a small number of heavily leveraged outliers within each quartile), and they increase exponentially with organization size.[5]

TABLE 9

CBDO Median and Average Assets and Liabilities by Organization Size, 2018

	All	Small	Mid-small	Mid-large	Large
N	5720	1,430	1,430	1,430	1,430
Total assets	$6,870,844	$1,318,947	$2,804,549	$6,550,613	$16,800,000
Net assets (median)	$1,088,275	$220,919	$515,260	$1,905,528	$5,864,435
Net assets (average)	$3,459,899	$774,293	$1,325,602	$3,509,488	$8,230,213
Unrestricted net assets[a]	$2,853,767	$653,966	$1,048,319	$2,868,982	$6,845,397
Cash and savings	$881,252	$174,493	$353,384	$869,007	$2,128,122
Land, buildings, and equipment (net depreciation)	$2,367,325	$455,629	$1,269,588	$2,506,276	$5,237,808
Total liabilities (average)	$3,023,778	$511,348	$1,489,985	$2,954,893	$7,138,884
Total liabilities (median)	$820,914	$47,846	$458,229	$1,128,566	$3,879,748

Source: Authors' analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data.

Notes: See page 6 for definition of expense quartile size ranges. All variables in the table represent average values within the column categories except if otherwise noted.

[a] Variable only available for full 990 filers (exempting the 211 990 EZ filers).

Asset creation. CBDOs have large asset portfolios in relation to their revenues, and asset growth stabilizes as organization size increases. In terms of asset creation, an organization's assets represent roughly five times their annual revenues (table 10). However, this ratio has a negative relationship with organizational size. The asset portfolios of small CBDOs are eight times as large as their revenues, while those of large CBDOs are only twice as large as their annual revenues. In other words, revenue streams for small organizations are significantly smaller than their asset holdings. Their median change in total assets was a decline of 1 percent, versus 2 percent growth for large organizations. However, small organizations had more variation in growth rates in total assets, with the average growth for small organizations at 41 percent relative to just 7 percent for large organizations. This indicates that changes in total assets for smaller organizations are "lumpier" and more inconsistent than for larger organizations.

TABLE 10

CBDO Asset Creation, Type, Liquidity, and Leverage by Organization Size, 2018

	All	Small	Mid-small	Mid-large	Large
N	5720	1,430	1,430	1,430	1,430
Asset creation					
Asset to revenue ratio	4.85	8.35	5.03	3.82	2.36
12-month change in total assets (average)	18%	41%	22%	7%	7%
12-month change in total assets (median)	0%	-1%	-1%	1%	2%
Asset types					
Share of total assets in cash	23%	28%	24%	20%	18%
Share of total assets in land, building, and equipment	41%	38%	50%	40%	37%
Asset liquidity					
Current ratio (average)[a]	19.17	32.40	22.22	17.88	8.74
Current ratio (median)[a]	6.13	8.85	7.68	7.32	4.20
Share with current ratio <1	9%	13%	14%	6%	4%
Asset leverage					
Debt to equity ratio[a]	0.10	0.03	0.06	0.10	0.21

	All	Small	Mid-small	Mid-large	Large
Endowment ratio (average)	0.53	0.57	0.45	0.54	0.54
Endowment ratio (median)	0.65	0.83	0.65	0.64	0.60
Debt to asset ratio (average)	0.47	0.43	0.55	0.46	0.46
Debt to asset ratio (median)	0.35	0.17	0.35	0.36	0.40

Source: Authors' analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data.

Notes: See page 6 for definition of expense quartile size ranges. All variables in the table represent average values within the column categories except if otherwise noted.

[a] Variable only available for full 990 filers (exempting the 211 990 EZ filers).

Reasons for this might include that smaller organizations' small asset portfolios shrink and grow by large percentages with the acquisition or sale of several properties in a year or that smaller organizations' assets are held in more volatile real estate markets with values that rise or fall more quickly. In contrast, larger organizations' portfolios may have more regular and counter-balancing inflows and outflows of properties from their asset portfolios within a single year, or the value of the inflows and outflows of real estate holdings is small relative to the maintained stock of total assets. Additional research is needed to confirm.

Asset types. For CBDOs, real estate and cash are key assets, though cash becomes less important for larger organizations**.** Given CBDOs' emphasis on development activities, it is no surprise that land, building, and equipment constitute the largest share of their assets at 41 percent (table 10), which is 1.5 times as large as the average nonprofit, which holds 27 percent of its assets in real estate.[6] Cash and savings constitute the second largest portion of CBDOs' assets, at 23 percent. Cash holdings tend to decrease with organization size as other types of assets (loans to other entities, investments, or merchandise and supplies) constitute a larger share of large organizations' asset portfolios. Organizations that can convert cash into other revenue-generating assets and hold more liabilities relative to their cash assets likely do so, and those tend to be larger organizations.

Asset liquidity. Smaller organizations deal more in cash than large organizations and have a wider variance in liquid assets (i.e., they have larger standard deviations and larger skews between their average and median values). Relative to small organizations, large organizations have fewer months of cash on hand to cover expenses (as noted) and have lower levels of immediately accessible assets to cover short-term liabilities, as indicated by the current ratio (table 10). However, these lower average current ratio scores may not indicate poorer financial health but rather strategic financial decisions, with large organizations potentially keeping just enough liquid assets available to cover necessary short-term liabilities but not an excess such that they are underutilizing short-term assets that could be invested in other ways. Additional research might reveal different processes at work. In contrast, small organizations had a much broader variance within their current ratios. Some had extremely high scores (as evidenced by the skew between the average and median values), indicating a potential inability to efficiently convert cash and savings into longer-term revenue-generating assets. Indeed, with average cash and savings holdings at $174,493, small organizations may need to save for longer before being able to convert that cash into long-term assets, such as a down payment on a real estate purchase. At the same time, a greater share of small organizations (relative to large organizations) had unhealthy current ratio scores, where their short-term assets were insufficient to cover their short-term liabilities (i.e., their ratio was less than 1). Additional research is necessary to understand the reasons behind small CBDOs' varied cash holding practices.

Asset leverage. CBDOs hold more assets than debt, but the extent to which assets are leveraged increases with organizational size. As a measure of traditional loans relative to unrestricted net assets, the debt-to-equity ratio shows that large organizations hold significantly more debt than small organizations (seven times more) but also that CBDOs in general have decent levels of unrestricted assets to cover their loans (table 10).

Two measures highlight how much an organization owns of its assets relative to the debt it has taken on using those assets as collateral. The debt-to-asset ratio, or DAR, indicates what share an organization's liabilities are of its total assets, and the corresponding endowment ratio shows what share of an organization's total assets are owned free and clear. Both ratios show that small organizations have significantly wider discrepancies between the average and median, meaning some organizations are extremely leveraged while others barely hold any debt (table 10). Most small organizations, however, hold very little debt (an average DAR of 0.43 and a median of 0.17) in contrast to large organizations that more homogenously hold debt that is roughly 40 to 46 percent the size of their total assets.

Unsurprisingly, given the volatility in small organizations' assets and use of debt, indicators of organizational financial distress are high for this group and decrease as organization size increases (table 11). Four times as many small organizations were insolvent (with liabilities that were more than their total assets) than large organizations. A destabilizing drop in net assets of 25 percent or more (a finance disruption) appears to affect organizations regardless of size. Even if fewer large organizations met these thresholds of distress, the fact remains that no CBDO, regardless of size, is immune to financial shocks.

TABLE 11

Number and Share of CBDOs' Leverage and Liquidity Shocks and Vulnerability, 2018

By size	Indicator	All	Small	Mid-small	Mid-large	Large
N		5720	1,430	1,430	1,430	1,430
Insolvency	Net assets less than $0	886	337	318	156	75
		(16%)	(24%)	(22%)	(11%)	(5%)
Finance disruption	25% drop in total assets	490	134	142	127	87
	within 12 months	(9%)	(9%)	(10%)	(9%)	(6%)

Source: Authors' analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data.
Note: See page 6 for expense quartile size range definition. Shock and vulnerability measures from Keating et al. (2005).

Differences by Region

By region, it appears that western organizations were in stronger financial positions than other CBDOs in 2018, with a larger share of them holding high levels of cash relative to short-term assets (high current ratios) but were also more leveraged with higher DAR scores (table 12). Southern organizations in contrast have leveraged fewer of their assets on average and have higher levels of cash. This likely relates to the West region being more heavily composed of large organizations and the South being more heavily composed of smaller organizations. But the contrast to other regions may indicate a potential benefit to asset growth and credit availability granted by having fewer CBDOs in the West, or it may indicate regional differences in investment practices and public policies affecting leverage practices. Further research would be needed to identify the source of these trends. No notable differences or trends in shares of CBDOs experiencing insolvency (ranging from 14 to 17 percent) or extreme drops in assets (ranging from 10 to 13 percent) were observed across regions (see the technical report for more detail).

TABLE 12

CBDO Assets Creation, Type, Liquidity, and Leverage by Organization Region, 2018

	All	Northeast	Midwest	South	West
N	5720	1396	1535	1670	1105
Asset creation					
Asset to revenue ratio	4.85	5.10	4.46	4.42	5.73
Net income to total assets ratio	0.01	0.01	0.02	0.01	0.02
Annual change in total assets (average)[a]	5%	4%	5%	3%	6%
Annual change in total assets (median)[a]	0%	0%	1%	0%	1%
Asset types					
Cash share	23%	21%	22%	24%	23%
Land, building, and equipment share of total assets	41%	39%	41%	40%	47%
Asset liquidity					
Current ratio (average)[a]	19.2	17.77	16.83	21.51	20.93
Current ratio (median)[a]	6.1	8.9	7.7	7.33	4.24
Share with current ratio <1	9%	13%	14%	6%	4%
Asset leverage					
Debt to equity ratio[a]	0.10	0.11	0.11	0.10	0.09
Endowment ratio (average)	0.53	0.52	0.51	0.57	0.49
Endowment ratio (median)	0.65	0.62	0.67	0.69	0.61
Debt to asset ratio (average)	0.47	0.49	0.48	0.43	0.51
Debt to asset ratio (median)	0.35	0.38	0.33	0.31	0.39

Source: Authors' analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data using US Census Bureau regional definitions.

Notes: All variables in the table represent average values within the column categories except if otherwise noted. For a full list of states in each Census Region, see technical report. US territories are not included in census regions, so N=5,706 across the four regions.

[a] Variable only available for full 990 filers (exempting the 211 990 EZ filers).

Change over Time

Over time, CBDOs have reduced their leverage, though the difference between the average and median has widened, indicating that a small number of organizations have dramatically increased their use of leverage over the years even as the majority of organizations have reduced their use of leverage (table 13). Over the past 10 years, CBDOs have improved in holding short-term assets to cover short-term debt (current ratio), and the share with unhealthy levels of liquid assets have declined. The share of organizations with more total liabilities than total assets has remained steady since 2007, at 13 percent of all CBDOs.

TABLE 13

CBDO Assets Creation, Type, Liquidity, and Leverage by Year, 2001–19

	2001	2004	2007	2010	2013	2016	2019
N	4,998	5,434	5,588	5,602	4,971	5,175	5,074
Assets and leverage metrics							
Current ratio (average)	-	-	-	-	12.15	12.46	13.49
Share with current ratio <1	-	-	-	-	17%	16%	13%
Endowment ratio	0.52	0.52	0.52	0.52	0.52	0.53	0.55
Debt to asset ratio (average)	0.48	0.48	0.48	0.48	0.48	0.46	0.45
Debt to asset ratio (median)	0.42	0.42	0.42	0.41	0.40	0.38	0.35
Share of insolvent CBDOs	10%	12%	13%	13%	13%	13%	13%

Source: Authors' analysis of National Center for Charitable Statistics Core Data Files, IRS Registry of open data on Amazon Web Services, and IRS Statistics of Income 990 data for every three years between 2001 and 2019.

Note: Many of the financial metrics not included in the 2001–19 analysis were excluded for lack of comparable tax variables across years and datasets. Variables constituting the current ratio are only available from 2013 onward. Notably, the SOI files begin in 2010 and the AWS files start in 2013. Further, the IRS transitioned tax forms between 2009 and 2013, so many variables in the NCCS do not carry over.

Financial Experiences of Real Estate–Focused CBDOs

CBDOs engage in many different activities to meet the needs of the communities they serve, but one core activity is the development of real estate, including affordable housing; community facilities like schools and day cares; and commercial, retail, and industrial space to support local businesses. For some CBDOs, real estate acquisition, development or redevelopment, and management represents a small share of their activities, which may instead focus on services or social programming. For others, though, real estate holdings are central to their assets and activities. Tax data do not provide a breakdown of major activities and CBDO lines of business (a rich potential line of future research), but they show how much CBDOs hold in real estate assets and what share of their total assets these holdings represent.

To develop an interim measure of whether a CBDO was focused on real estate, we determined the median of land, buildings, and equipment as a share of total assets (or the LBETA ratio) for each organizational size group. To control for the fact that assets vary by organizational size, we classified an organization as having high or low land and building share based on its LBETA ratio relative to the median value within its own size cohort rather than the national median. This means there are organizations of each size with both high-share and low-share groups, but that all organizations within the each LBETA ratio category had significantly higher (or significantly lower) shares of their total assets held in real estate than their peers.

This approach appears to accurately identify real estate-focused organizations, because those with high LBETA ratios display all the basic financial characteristics of organizations that invest in real estate (see the technical report for a table of basic financial characteristics). Despite having similar revenue and expense flow sizes, high-LBETA organizations are more leveraged (total liabilities of $3.4 million compared to low LBETA organizations' $2.6 million) and have lower total asset holdings than low-LBETA organizations ($6.6 million versus $7.2 million, respectively). The average high-LBETA CBDO had nearly four times more real estate holdings than the average low-LBETA CBDO ($3.8 million for high-LBETA CBDOs compared with $966,000 for low-LBETA CBDOs). High-LBETA CBDOs' asset portfolios were composed mostly of land, buildings, and equipment; cash formed a very small part (table 14). Low-LBETA CBDOs had a much larger share of their asset portfolios in cash and other asset types (e.g., merchandise and supplies, loans to other entities, and investments).

When comparing financial flow metrics, high-LBETA CBDOs have significantly lower average annual net income, have more negative margins, and are more likely to have negative net income during a year (table 14). The higher share of negative net income is likely because of these organizations' more frequent large real estate purchases. Relative to low-LBETA CBDOs, high-LBETA CBDOs' earned incomes make up a significantly larger portion of their revenues, and they rely less on donated or contribute revenues—consistent with a likely assumption that they are drawing in rental payments from leasing property to residents and businesses. Consequently, their self-sufficiency ratio (or their ability to cover their expenses with earned income) is also significantly higher.

TABLE 14

CBDO Average Funding Flow and Leverage Metrics by Share of Land, Buildings and Equipment, 2018

	All CBDOs	Low land and building share CBDOs	High land and building share CBDOs
N	5720	2,860	2,860
Funding flow metrics			
Net income	$146,596	$208,341	$84,850
Share with negative net income	47%	36%	53%
Margin	-1%	3%	-5%
Earned income ratio	45%	37%	53%
Donated income ratio	50%	55%	46%
Months of cash on hand	11.31	14.69	8.07
Share with <3 months of cash on hand	36%	28%	44%
Self-sufficiency ratio[a]	0.35	0.30	0.39
Leverage and liquidity metrics			
Cash Share	23%	32%	12%
Land, building, and equipment share of total assets	41%	10%	73%
Current ratio*	19.17	26.34	12.81
Share with current ratio <1	9%	4%	14%
Debt to asset ratio	0.47	0.35	0.60

Source: Authors' analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data.

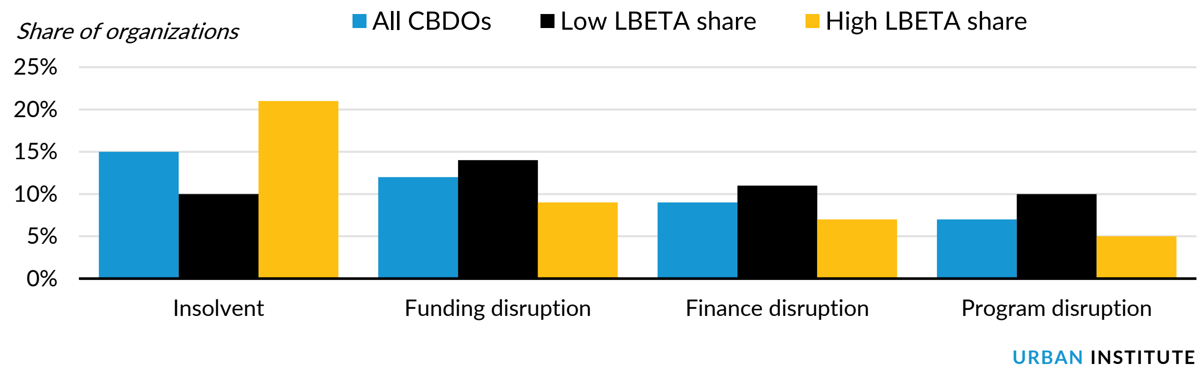
Notes: All variables in the table represent average values within the column categories except if otherwise noted. All variables reported in this table had significant T tests of differences between means for low versus high real estate organizations (p <0.001).

[a] Variable only available for full 990 filers (exempting the 211 990 EZ filers).

High-LBETA organizations' financial leverage practices differ significantly, with high-LBETA organizations relying more on debt and holding more illiquid assets than low-LBETA organizations (table 14, figure 3). High-LBETA organizations have less liquid cash to cover short-term debt, higher DARs, and lower shares of cash relative to their total assets. There were significantly more high-LBETA organizations with unhealthy levels of cash on hand to cover expenses and short-term debt.

FIGURE 3

Average CBDO Leverage Ratios by High and Low Real Estate Holdings, 2018



Source: Authors' analysis of IRS registry of open data on AWS and Statistics of Income IRS 990 and 990EZ data.
Note: All ratios and shares displayed here had statistically significant differences between low and high LBETA share CBDOs.

Maintaining a low level of cash and liquid assets and high levels of total debt is a difficult balance, so unsurprisingly, a larger share of high-LBETA organizations' total liabilities exceed their total assets (i.e., are insolvent) than low-LBETA organizations (21 percent versus 10 percent). This could indicate that organizations that pursue a real estate–focused approach are more vulnerable or that vulnerable CBDOs tend to liquidate other types of assets before they pull from their real estate holdings. Additional research—discussed in the next section—would be required to assess the causes and implications of this increased vulnerability from higher levels of leverage. At the same time though, high-LBETA organizations are less likely to experience funding, finance, or program disruptions (9, 7, and 5 percent, respectively, for high-LBETA CBDOs versus 14, 11, and 10 percent for low-LBETA CBDOs) (figure 2). This indicates that their large real estate holdings tend to be less vulnerable to sudden shocks and represent more steady income and expense streams.

Summarizing CBDO Sector Financial Health

Funding Flows

Overall, the CBDO sector has experienced steady growth in revenues over time. This holds true despite the Great Recession of 2007–09, which may have slightly increased the number of CBDO closures but did not reduce the financial growth of the CBDO sector overall. The sector has also increased its self-sufficiency through earned income and reduced dependency on donations over time, despite median donation amounts holding steady after adjusting for inflation. Significant drops in within-year revenues and expenses are relatively rare, on average.

However, there are signs of financial stress. Shrinking average operating margins over time indicate potential downsides to a shift toward earned income as an increasing source of revenue. Another sign of tightening finances is that average organizational net income has declined in real dollars since 2001, although the severity of the drop has varied over time. And around one out of every three CBDOs has less than three months of cash on hand to cover revenue shortfalls and keep operations running smoothly.

When looking at subgroups of CBDOs, clearer differences emerge (table 15):

- **By size**: Small organizations have higher earned income and more months of cash on hand. They are more likely than large CBDOs to experience negative net income and financial disruptions. However, the largest 25 percent of CBDOs hold most of the sector's resources (84 percent of total revenue and 71 percent of the sector's total assets). These large CBDOs are more likely to depend on government revenues and less likely to experience a large drop in revenues or expenses in a single year or to experience negative net income, on average, than small organizations. But they do have fewer months of cash on hand
- **By region**: Organizations in the West bring in higher average earned income and have greater self-sufficiency than other regions, with significantly higher net income. CBDOs in the South have higher levels of cash, although these regional differences tend to reflect the size distribution of organizations in each region.
- **By real estate holdings**: CBDOs that hold a larger share of their assets in land, buildings, and equipment relative to other CBDOs of a similar size are shielded against sudden financial shocks because of steady revenues and expenses. But they have significantly lower margins, less cash on hand, and a higher share with negative net income than CBDOs with a smaller share of real estate assets.

TABLE 15

CBDO Funding Flows Health by Organizational Size and Real Estate Holdings Compared to All CBDOs, 2018

	Share of organizations experiencing negative net income	Share of organizations with less than 3 months of cash on hand	Average operating margin	Share of organizations experiencing funding disruption	Share of organizations experiencing program disruption
By size					
Large CBDOs	Better	Worse	Higher	Better	Better
Small CBDOs	Worse	Better	Lower	Worse	Worse
By real estate holdings					
High-LBETA holdings	Worse	Worse	Much lower	Better	Better
Low-LBETA holdings	Better	Better	Higher	Worse	Worse

Notes: All assessment comparisons are relative to the average/shares for the CBDO sector as a whole. Subsectors can perform better or worse than field averages or can have a higher or lower share or organizations experiencing distress than the field-level share.

Leverage and Liquidity

The CBDO sector maintains a large share of total assets in real estate and a healthy DAR, on average, with decent levels of unrestricted assets available to cover outstanding loan obligations. While only 9 percent of CBDOs experienced a steep (25 percent) drop in net assets over 12 months in 2018, 16 percent of CBDOs in 2018 were insolvent, with reported net assets less than $0. A closer look reveals some key differences within the sector (table 16):

- **By size**: Large CBDOs have more assets and hold higher levels of debt but maintain decent liquidity to cover short-term debt. Small organizations have less debt but also own fewer assets than large CBDOs, and a larger share report insolvency. They do not carry a lot of debt but may struggle to pay it in the short term if they have it. Although many small businesses—whether nonprofit or for profit—face financial uncertainty, when these mission-based organizations close, disinvested communities can lose a key provider of services, programs, and development.
- **By region**: Regionally, differences were mostly influenced by the distribution by CBDO size within each region. Organizations in the West are larger, with a higher share of total national assets and liabilities. In contrast, CBDOs in the South have leveraged fewer assets. This may point out regional differences in the ability to grow assets and access credit.
- **By real estate holdings**: CBDOs that hold a larger share of their assets in land, buildings, and equipment relative to other CBDOs their own size face higher leverage (higher DARs), lower liquidity as measured by the current ratio, and higher rates of insolvency. They are less likely, however, to experience a sudden large drop in asset values. Although higher leverage is not necessarily an indicator of poor financial health, concentrating assets in real estate appears to come with some increased risk of being overleveraged with illiquid assets. This is an area where further study is needed.

TABLE 16

Summary Comparison of CBDO Asset and Liquidity Health by Organizational Size and Real Estate Holdings, 2018

	Average debt-to-asset ratio scores	Average current ratio scores	Share of organizations experiencing insolvency	Share of organizations experiencing financial disruption
By size				
Large CBDOs	Worse	Worse	Lower	Lower
Small CBDOs	Better	Better	Higher	Slightly higher
By real estate holdings				
High-LBETA holdings	Worse	Worse	Much higher	Lower

Low-LBETA holdings	Better	Better	Lower	Slightly higher

Notes: All assessment comparisons are relative to the average/shares for the CBDO sector as a whole. Subsectors can perform better/worse than field averages or can have a higher or lower share or organizations experiencing distress than the field-level share.

Supporting Improved Financial Health of CBDO Sector

Financial health for CBDOs is essential as they serve an important role in revitalizing, developing, empowering and reinvesting in economically disadvantaged communities across the country. The overall health of the average CBDO covers up financial stresses and vulnerabilities facing the sector as a whole—as well as certain sub-groups of CBDOs by size, region, and asset holdings. Although there are many nuances of CBDO financial health we could not explore in this brief, some CBDOs (e.g., small, Southern, or real-estate-focused CBDOs) obviously face notable financial struggles and may benefit from additional funding and technical assistance supports. We also suggest areas for further study that reach beyond the limitations of the IRS data to tell a more complete story of CBDO financial opportunities and challenges.

Expanding CBDO Capacity

There is an opportunity to improve the financial resiliency and sustainability of vulnerable CBDOs and ensure they continue to serve their missions in their communities. There is a role for both funders and technical assistance providers to ensure that their existing supports for CBDOs are targeted to address risks and vulnerabilities, and explore changes or expansions that may be suggested by report findings.

Funders can take a close look at the current realities and trends in CBDO financial health and ask themselves where they can help fill gaps for CBDOs at risk. Whether government, philanthropy, or corporate investors, there are roles for expanding donations, providing access to credit and capital, and strategically investing in expanding CBDO capacities to serve their communities. Together, funders can help reverse the trend of diminishing margins across the sector by boosting revenues so CBDOs have the resources they need to reinvest in their mission. They can also facilitate sector growth in the following ways:

- **By size**: Small organizations could use additional resources, including low-barrier access to credit to help them convert cash into assets and grow into larger organizations with greater financial stability. Although large organizations have stronger funding flows and leverage assets well, on average, while maintaining adequate liquidity, they may benefit from more flexible resources to supplement the large share of government funds they receive that may be more restricted to support specific CDBO activities and programs.
- **By region**: Organizations in the South tend to struggle more than CBDOs in other regions on some measures of financial health and could use strategic capacity-building investments as

well as greater access to credit to ensure that Southern communities of color and people with low incomes are served well by CBDO development activities and programming.

- **By real estate holdings**: Although CBDOs with a high share of real estate assets have relatively stable funding flows, on average, tighter operating margins and reserves plus higher leverage can put them at risk of insolvency. Given the importance of these CBDOs to their communities and the residents, businesses, and service programs that depend on their buildings, identification of at-risk organizations and properties along with strategic funding supports could provide a critical safety net when these groups struggle.

Although training and technical assistance programs already exist to support CBDOs, these can be further tapped to help CBDOs address specific financial challenges. Whether this is extending outreach to ensure current resources reach the most vulnerable organizations or expanding program offerings to meet emergent needs, training and technical assistance opportunities are valuable to organizations looking to stabilize and grow. Providers can consider how their current offerings address the needs below, and where they may evolve to fill any gaps:

- **By size**: Small CBDOs may need additional help building assets, and particularly with how to take the important step of converting cash into assets (i.e., making their first real estate acquisition). For CBDOs of all sizes, training in healthy leverage and liquidity is key to growth, especially how to avoid being overleveraged in a way that hurts liquidity and limits the ability to weather financial shocks.
- **By region**: Despite the presence of more CBDOs in the South, there are fewer organizations per person experiencing poverty, and existing organizations tender to be smaller than in other regions. In addition to helping these CBDOs build and leverage more assets over time, this region may benefit from deep capacity-building efforts and additional research on any unique regional roadblocks to CBDO creation and growth.
- **By real estate holdings**: Managing a real estate–focused asset portfolio has particular risks associated with reduced cash and liquidity. CBDOs with large shares of real estate holdings may benefit from trainings and peer learning on what financial health looks like for organizations with this unique asset profile and what the best warning signs are for spotting increasing risk.

Filling Knowledge Gaps

Although this study answers some questions, it raises many others. Future research can help interpret the findings presented here and address overall limitations to this study, including studies shaped for the following purposes:

- **Comparing the financial health of the CBDO sector to nonprofits as a whole**. There are indications that CBDO financial health may have some unique characteristics, such as higher real estate holdings, but a comparison to the sector as a whole may unlock further understanding of unique CBDO financial health strengths and challenges.

- **Strengthening the longitudinal analysis**. Although this study provided a panel analysis of CBDO survivors, the findings could be expanded to cover all active and inactive organizations in each year. This could help identify how sector financial health is influenced over time, for example, by financially weaker organizations closing versus strong growth of survivor organizations over time. Additionally, it may shed light on sector-specific financial indicators for CBDOs portending organizational vulnerability and closure.
- **Putting CBDO work in clearer context geographically to see concentrations and coverage gaps**. Although this study used IRS filing addresses to assign CBDOs to census regions, states, and metropolitan statistical areas (see the state/MSA factbook by Lo and colleagues [2022]), this address does not provide data on actual service area. Accessing more fine-grained data about the size and location of CBDO service areas will provide a more detailed picture of CBDO coverage across the country and where gaps may exist. It will also shed additional light on where resources are most concentrated.
- **Assessing external factors' influences on CBDO health to see what economic, political, and nonprofit environmental factors affect survival and growth.** This study assessed CBDOs' internal financial data to understand health, but research indicates that external factors may have more influence on organizations' ability to grow and thrive (Prentice 2016). Pairing CBDOs' financial records with information on their service areas, local and macroeconomic conditions, and information on local nonprofit market saturation or consolidation may shed light on the sector-specific factors that support or hinder CBDO growth.
- **Understanding CBDO primary activities and effects on financial health**: This study included a novel measure meant to capture CBDOs that are more real estate focused by looking at their assets. Further research could collect more detailed information on CBDO activities and refine the analysis here by (1) testing how well the novel measure used here distinguished between CBDOs that primarily develop real estate and those that primarily provide community services and programs, and (2) understanding if the type of real estate owned matters to financial health (e.g., rental housing, commercial or industrial space, community facilities) and how.
- **Expanding interpretations and findings through qualitative research**. To explore the reasons behind the numbers and offer more precise interpretations requires an extensive scan of policies, programs, and practices that affect CBDO financial health. Doing so also takes in-depth discussions with a cross-section of CBDOs to understand the similarities and differences in the financial opportunities and challenges they face.

Together, this extended research would clarify and strengthen recommendations to funders and training and technical assistance providers but also give insights to policymakers, regional and local stakeholders, and others who support the important work of the nonprofit CBDO sector in meeting the needs of disadvantaged communities across the country. Although some of this research will be taken on by additional Grounding Values studies, such as a planned national census survey of CBDOs, we invite others to join in exploring and strengthening the financial health of this sector.

Notes

[1] Von Hoffman, Alexander. The Past, Present, and Future of Community Development, July 17, 2013, https://shelterforce.org/2013/07/17/the_past_present_and_future_of_community_development/; Corianne Payton Scally. "Restoring Confidence in the CDC Model," ShelterForce, July 17, 2013, https://shelterforce.org/2013/07/17/restoring_confidence_in_the_cdc_model/.

[2] A more common approach for determining nonprofit size is to force organizations into preexisting size ranges, regardless of how many organizations fall into each range. Generally the largest group starts at $10 million in expenses. For an example, see The National Center for Charitable Statistics, "The Nonprofit Sector in Brief 2019," Urban Institute, June 2020, https://nccs.urban.org/publication/nonprofit-sector-brief-2019#highlights. We chose quartiles since CBDOs tend to be smaller in size than the field as a whole and to facilitate clearer interpretation and comparisons.

[3] Organizations with $0 in annual expenses may be dormant, as in they have no activities for the year but are still collecting revenues or holding assets, and they filed a 990 in order to maintain their nonprofit tax status. Expenses are the best indicator of organizational activity, so $0 in financial activity indicated a small organization. Additionally, small organizations may have no formal employees requiring salaries. Instead they rely primarily on volunteers.

[4] Peter Kramer, "Nonprofit Sector: Top Indicators of Nonprofit Financial Health," *Nonprofit Finance Fund* (blog), March 26, 2018, https://nff.org/blog/top-indicators-nonprofit-financial-health. Kevin Leder, "Financial Metrics and Benchmarking for Non-Profit Organizations," presentation given at the NCACPA Not-for-Profit Conference, May 22, 2012. Moody's Investors Service, "Rating Methodology, Nonprofit Organizations (Other Than Healthcare and Higher Education)," May 7, 2019. Dylan Roberts, Oliver Wyman, George Morris, John MacIntosh, and Daniel Millenson, "Risk Management for Nonprofits," Point of View, Oliver Wyman and SeaChange Capital Partners, March 2016.

[5] The log of total assets and total liabilities were also statistically significantly related to organizational size by expenses.

[6] Internal Revenue Service, "Statistical Tables: Form 990 Balance Sheet and Income Statement Items," last reviewed July 27, 2022, https://www.irs.gov/statistics/soi-tax-stats-charities-and-other-tax-exempt-organizations-statistics.

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Errata

This brief was corrected on September 30, 2022. Originally, we described our unit of analysis as 5,720 unique CBDOs filing taxes in 2018, but we actually analyzed the number of tax-filing records in 2018 filed by 5,603 unique CBDOs. Some CBDOs filed more than one tax statement in 2018 (e.g., for address updates, recent tax year amendments, or within-year amendments). Numbers throughout this brief are based on the correct unit of analysis and have not changed. For more information, see urban.org/projects/grounding-values-cbdos. We keep the "organization" language throughout this brief because it is easier to understand, but mentions of CBDOs in this study should be interpreted as CBDO tax filings in 2018.

We edited text on page 3 in the first paragraph of the Study Population and Methods section to clarify the unit of analysis.

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