
Nonprofit Finance Fund

Loan Case Studies of Educational Nonprofits

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Higher Achievement Program Washington, D.C.

Bay Area School for Independent Study San Francisco, California

Williamsburg Charter School Brooklyn, New York

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Nonprofit Finance Fund

“Nonprofit Finance Fund was a guiding force for the acquisition of our new headquarters. Without their assistance, we would have been stuck: unable to grow and at risk in our current location. NFF provided not only financial support but also training throughout the process regarding financial planning and real estate acquisition. NFF gave Higher Achievement a level of stability and permanence in Washington, which has allowed us to grow at a much faster rate.”

— **Maureen Holla, Higher Achievement Program Executive Director**

The Higher Achievement Program provides guidance and high school placement services to students in some of the poorest neighborhoods in Washington, D.C. It has been lauded as a national model for out-of-school education programs, an accurate reflection of its inspiring achievements. Two years ago, Higher Achievement began a process of regional scaling that was in jeopardy due to lack of space. The rent-free space it occupied in a D.C. high school was no longer sufficient for its growing operations. New space was needed, and quickly. When Higher Achievement discovered a residence that would allow for program expansion and extended student services, the organization could not pass up the opportunity to purchase the building if it hoped to serve more students in the community. However, sufficient funds had not yet been raised to independently finance the acquisition and renovation of the building. The ability to purchase the building before Higher Achievement’s capital campaign was completed hinged on financial support from an outside institution.

Higher Achievement’s struggle to secure financial support is one that is shared by numerous nonprofits lacking access to traditional sources of capital. Because of complex or erratic revenue streams, nonprofits can be perceived as high-risk borrowers by conventional lenders. This is particularly true for organizations that focus on education, as such organizations do not always have much in the way of equity to serve as collateral for traditional loans. Additionally, educational nonprofits often rely on government funding to support their operations and thus must contend with irregular revenue streams. At the same time, these organizations play a crucial role in filling the gap in educational services offered to children in this country. As such, they are critical to the health, viability, and vitality of communities—particularly those with significant numbers of low- and moderate-income residents. Without access to comprehensive and reliable sources of credit, the ability of such nonprofits to sustain their diverse operations is put in jeopardy.

The goal of the Nonprofit Finance Fund (NFF) is to provide nonprofits like the Higher Achievement Program with access to capital markets. By investing financial resources, in the form of loans, grants and asset-building programs, in concert with management and technical advice, NFF works to fill nonprofits' overall need for capital. In so doing, NFF helps nonprofits meet their long-term growth needs by enabling them to better reach the populations they serve, expand the services they provide, and ultimately sustain healthy communities over the long term.

NFF's Theory on Debt

Nonprofit Finance Fund's lending program is a key component in providing nonprofits with access to credit. While debt is not appropriate in all situations or for all borrowers, NFF realizes that, within the broader context of overall capitalization, debt can be a powerful strategic tool for financially stable organizations that are looking for aid in growth—not a quick fix to stave off emergencies. Seeking to invest money, either as a sole lender or in partnership with other financing institutions, NFF aims to evaluate and invest in the health of an underlying nonprofit business, rather than against the value of a piece of real estate or other collateral. As such, NFF frequently grants unsecured loans, a distinction not shared by most traditional lenders.

An additional distinction of Nonprofit Finance Fund's loan approach is the central role that management assistance, either through workshops or one-on-one meetings, plays in helping nonprofits to evaluate their financial position and capacity and to plan for projects and borrowing. It is not uncommon for NFF to have worked with potential borrowers from the early planning stages of their projects. Finally, NFF finances and advises on projects as a means for nonprofits to expand or improve their services—not to secure real estate. In this way, NFF's loans are designed to help our clients spread the cost of a capital improvement over its useful life, manage cash flow, and support sustainable growth. Ultimately, these mechanisms help nonprofits grow and maintain their financial health while continuing to provide high-quality programs and services to their clients.

In recent years, NFF has seen a marked increase in the demand for capital from youth-serving organizations. For many of these organizations, debt provides a means to support expansion; to provide working capital; to support facilities-related activities such as acquisitions or renovations; or to bridge cash flow needs arising from delayed grant or contract reimbursements, capital campaigns, fundraising events, or seasonal needs. The following case studies highlight how NFF's varied debt products have addressed the needs of three educational nonprofits across the country.

Case Studies

Higher Achievement Program, Washington, D.C.

Higher Achievement Program (HAP) was founded at Gonzaga High School in 1975 and has a 30-year history of serving Washington's youth from low-income communities. Its goal is to immerse promising low-income middle school students in a rigorous academic program to ready them for a challenging high school curriculum and educational paths beyond high school. Serving 400 disadvantaged middle school students in Washington, D.C., Higher Achievement strives to bolster academic skills, behaviors, and attitudes of students in distressed public schools so that their grades and standardized scores improve in tandem with their opportunities to attend top public magnet, private and parochial high schools. Through an application and interview process HAP selects highly motivated students to enroll in its after-school program. Half of those admitted are C or D students. Academic rigor is at the core of Higher Achievement, with enrolled students spending 650 hours per school year in the free program, in addition to their 900 hours at school. Operating in some of D.C.'s poorest neighborhoods, 75% of HAP graduates go on to top high schools and 95% go on to college—more than double the national average for children of their demographic.

After near collapse in 1998, Higher Achievement's board of directors shut down operations and reorganized the program's management, hiring Maureen Holla as the organization's new executive director. With 15 years of executive nonprofit management and fundraising experience, Ms. Holla is a recognized leader in nonprofit evaluation and accountability and has been featured in numerous articles and newsletters for best practices in action learning, evaluation, technology integration, and board development. Under Ms. Holla's leadership, HAP has made a remarkable turnaround. It has

been lauded as a national model for academic achievement during out-of-school time and recognized twice by The Washington Post as one of the best managed nonprofits in the area.

The Need

When HAP reopened its doors in 1999, it had two staff members operating from one site. The organization has grown cautiously, opening one additional site per year from 2000 to 2002. By 2003, the organization had grown from 35 students to 300. However, its administrative headquarters had not kept pace with its program and staff growth. Operating out of 1,100 square feet of donated space at Gonzaga High School, the workspace metric for the 14 staff was approximately 70 feet per person, half the average space metric required for an organization of this type. Additionally, Higher Achievement had no private rooms to conduct entrance interviews or advise students during the high school placement process.

Through a partnership with the Washington Scholarship Fund, HAP was poised to add 100 students to its program in 2005. Considering its space constraints, any further expansion would only be possible with a larger headquarters for program administration. Thus, in 2004 HAP engaged real estate consultants to assess the viability of relocating. The consultants concluded that the inaccessibility of the Washington real estate market was not only an issue for those in need, but also for those organizations helping underdeveloped communities. In D.C.'s market—where the lease cost was \$30/square feet—it would be significantly less expensive to own, rather than rent, over a five-year period.

In late September 2004, HAP signed a letter of intent for purchase of a 5,000 square foot building on Capitol Hill. The total cost was estimated at \$1,625,100: \$1,400,000 acquisition cost and \$252,100 closing costs and start-up expenses. Higher Achievement had begun a capital campaign to fund the purchase of its new administrative home in July of 2004. Although good progress had been made in the capital campaign, it was clear that if HAP was going to accommodate the program growth from the Washington Scholarship Fund partnership, it would need to relocate before the capital campaign's proceeds would be available to fully fund the facility purchase.

The Situation

With \$290,000 of equity and \$100,000 of in-kind contributions (for legal, project management and real estate fees), Higher Achievement approached Nonprofit Finance Fund and Local Initiatives Support Coalition (LISC) for a \$631,050 loan from each organization to support the purchase and renovation of the new facility.

Traditional lenders would likely consider HAP a high-risk borrower, as the organization had not reached its capital campaign goal prior to the time of purchase. Additionally, HAP found it very difficult to present itself as a suitable borrower to most major lenders, who looked at the organization's entire 30-year history, as opposed to its programmatic and financial success since the 1999 reorganization. In coming to its decision to lend to HAP, NFF considered the underlying strength of Higher Achievement's business and its executive staff and board. Beyond Maureen Holla's accomplishments as executive director, the development director for the past four years had created a strong base of funders, securing over \$400,000 from new funders in the past year alone. Additionally, HAP was in the process of hiring a fundraising consul-

tant to begin the public phase of the capital campaign. The organization's strong reputation in the community, coupled with management's depth of experience, helped NFF and LISC to feel confident that HAP would be able to raise the necessary capital to finance the new building.

However, the current financial health of the organization and NFF's ability to mitigate any risk from lending to HAP (should capital campaign proceeds fall short of the full purchase and relocation costs) were also considered. In terms of financial health, operating revenues had grown rapidly since the rebirth of the organization, such that as expenses grew in line with program expansion, the organization's net assets had continually increased. Additionally, HAP had a debt-free balance sheet and liquid cash flow. HAP's steady cash flow would enable the organization to comfortably make debt payments over the life of NFF's proposed loan. Finally, NFF was reassured by the fact that the equity in the building would enable HAP to secure a reasonable mortgage with a traditional bank, should the need arise.

Meeting the Need

Throughout the acquisition process, NFF assisted Higher Achievement with technical advice on facilities acquisition as well as financial guidance. NFF approved Higher Achievement as an acceptable borrower based on its strong leadership and community reputation and its ability to increase grant and program revenue. Along with the equity in the building, these factors mitigated the risk of HAP never having conducted a capital campaign and never having owned its own building. Higher Achievement's loan was structured according to NFF Credit Policy Guidelines except for the fact that rather than provide an unsecured loan, both NFF and LISC took collateral on their loans. Given that the loan repayment source was uncertain, NFF concluded that taking collateral in this

case was a responsible measure. Consequently, NFF and LISC share first lien on capital campaign proceeds and the building's mortgage.

In November of 2004, in concert with LISC, Nonprofit Finance Fund approved a two year 'bullet maturity' loan of \$631,000 to HAP. Only interest on the loan will be paid for two years, at which point the principal loan amount will be repaid by the capital campaign proceeds. In late 2005, the capital campaign moved into its public phase with the addition of the full-time fundraising consultant. Six months after its loan closing, Higher Achievement had paid off more than half of its loan and had receivables to erase the debt completely before the 24-month expiration of the loan.

The Impact

In addition to the loan, NFF was able to provide HAP with both financial advising and technical assistance throughout the acquisition process. According to Executive Director Maureen Holla, NFF's involvement in the acquisition of the new space had further benefits as Higher Achievement continued to secure support for the project:

From the external vantage point, NFF's loan gave investors more confidence, allowing us to raise enough money for the full down payment. We needed a village to accomplish our goal—NFF's involvement helped us secure corporate assistance and philanthropic aid.

Higher Achievement's new headquarters in its renovated building includes office space for senior staff, workspace for program directors and assistants, conference rooms and high school placement meeting rooms. With adequate space for operations, program directors finally have functional space for individual student placement meetings. Management is able to offer enhanced support to its programs and plan for future growth. Ms. Holla believes that all aspects of the organization have improved as a result of the acquisition:

There is greater staff retention as well as staff growth, general morale is up, productivity and the outcome for the kids is way up, and soon we will be expanding into neighboring cities.

This summer Higher Achievement plans to expand its program into Alexandria, VA and then into Prince George's County, MD. Within five years, it plans to triple in size. On top of improving working conditions, HAP's ownership of its building provides a tangible asset to buffer the organization against the uncertainty of future economic conditions.

Higher Achievement continues to gain recognition for its rigorous academics and substantive results. In 2005, it was the platform for President Bush's "Investing in America's Youth" Initiative. With over half of all HAP scholars increasing their standardized reading scores in recent years after joining the program and 62% boosting their math scores, Higher Achievement continues to place its students in the very best high schools and colleges in the country.

Bay Area School for Independent Study, San Francisco, California

Bay Area School for Independent Study (BASIS) has operated for three years as an independent study (non-classroom) K-12 school. With a mission of enabling a diverse population of students to become independent thinkers, lifelong learners, and responsible contributing members of society, the school is particularly geared to educate children who have English learning needs, or those that have a strong interest in studying uncommon foreign languages and cultures. Students enrolled in the BASIS home-based program are partnered with a credentialed independent study teacher and have access to a BASIS resource center for students and their caretakers.

The school is currently expanding to operate two classroom-based facilities in the cities of Fremont and San Leandro under its program called Families of Alameda for Multicultural-Multilingual Education (FAME). FAME's curriculum has a strong emphasis on languages and cultural diversity, and aims to be especially supportive of students who need to learn English and those who would like to study languages and cultures that are not routinely taught, such as Arabic, Farsi, Russian or Hebrew. In May 2005, the school successfully applied for a charter from Alameda County to enable BASIS to serve students in and directly surrounding the county.

The demand for the school's programs has been substantial. The school had an enrollment of 645 students in the independent study program in 2005, and planned to serve 960 students in 2006 with the addition of students to their new programs. With approximately 300 students on the waiting list for its combined programs, before the FAME programs have even begun, BASIS projects

that total enrollment will increase to 1,500 by 2010. Additionally, the core independent study program is intentionally being scaled back to grow the site-based programs and enable students from a greater geographical area to participate in BASIS programs.

The Need

When the FAME programs were set to begin, the County of Alameda stipulated that during its first year of operations with its new charter and multi-site structure the school had to have access to the majority of its total annual operating cost of just over \$1 million before it could officially open the schools at the end of August 2005. BASIS Executive Director Maram Alaiwat believes that this requirement was due to the fact that BASIS was the first charter school authorized by Alameda County and it was structurally larger and more complex than most other charter schools.

Like other charter schools, BASIS has inherent cash flow challenges as a result of the uneven cycle of payments from the California State Board of Education, its main funder. Payments are received three times between August and July, based on average daily attendance of the previous period. The payments are often delayed by at least a month due to state reconciliation and budgeting procedures. Other funding sources include special education funding and lottery revenues. However, receipt of both forms of reimbursement take 12 to 16 months from the day that a new charter school opens. Based on these payments, BASIS projected having at most \$350,000 of cash on hand each month. Additionally, the school maintained a \$250,000 line of credit with a local bank that had

been used to cover its financing needs for the independent study program. The existing loan could not be increased because the school is located outside of the bank's direct service area, and has been maintained on an exceptional basis.

Still needing close to \$500,000 to meet the county's requirement, BASIS turned to current creditors from whom they had received a \$212,000 working capital loan in November 2004. However, because the FAME program was new, BASIS was ineligible to obtain a loan from this same source. It was at this point that BASIS turned to NFF for a \$500,000 line of credit to satisfy the county's requirement, to cover the balance of its FAME-related working capital needs, and to obtain a financing "cushion" for protection against unexpected operating shortfalls.

The Situation

Despite the success and financial health of BASIS's original independent school, NFF ended up being one of its only line of credit alternatives. Because BASIS reconfigured, with a lot of expansion, it was deemed a start-up by other potential creditors. These lenders considered BASIS a risky borrower for many reasons. FAME was a start-up program, with no financial history and an uncertain future. Further, the requested line of credit was large and could be inappropriately used. Finally, as with all charter schools, there was the risk that the charter would not be renewed after its initial five-year term.

To better evaluate the likelihood of the program's viability and success, NFF staff assessed BASIS's past performance and its progress in planning for successful operation of the new programs. Due diligence revealed a number of encouraging characteristics: BASIS's strong track record (financially and operationally) with the independent study program over the past three years; the school's strong relationship with its authorizing agency, Alameda County; the fact that the school has already reached full enrollment at all three sites and teacher hiring was on track; the school's very detailed business plan for the new program; and the prior experience of the executive director and director of finance in the development and operation of charter schools. Specifically, Maram Alaiwat had been involved in the development and management of 15 charter schools and planned to stay in her role at BASIS after the school was fully developed.

To gain a sense of BASIS as a potential borrower, NFF staff spoke with a previous lender to the organization who reported that BASIS repaid its loan on time and was overall a conscientious borrower. Discussion with school management and close attention to the school's projected monthly budgets, led staff to expect that the loan would not be fully utilized and that the unused portion of the loan would be held as a type of reserve to meet the county's requirements.

Finally, in assessing the likelihood of the charter's renewal, NFF staff consulted with an independent educational expert in the Bay Area, familiar with BASIS and the Alameda County authorizing agency. Accordingly, NFF learned that in general, larger schools similar to BASIS demonstrate a greater ability to be viable over the long term, particularly in handling the lumpy cycle of payments from the state, than smaller schools do. NFF also considered BASIS's strong relationship with the Alameda authorizing agency and the rarity of charters not being renewed provided the school demonstrates an ability to manage its business operations through financial solvency and proper accountability. All indicators were that the school was conscientious and experienced in financial management. Further, the proposed loan had a term of only one year and a possible one-year extension, so charter renewal was likely not an issue for this loan.

Meeting the Need

Despite the start-up nature of the FAME programs, NFF decided to lend to BASIS based on the school's strong management team and financial condition, its demonstrated effectiveness over the last three years, its track record of receiving consistent and increasing payments from the State of California, as well as the strong initial progress of the FAME program. A \$500,000 loan was approved as a one-year revolving line of credit. The loan differs from NFF's Credit Policy in that it is secured by collateral in the form of BASIS's expected payments, should loan repayments not be made. This exception was made because BASIS is also borrowing from another lender. To ensure BASIS's continued financial vitality as the FAME program begins operations, the loan is monitored closely by NFF staff using the school's monthly financial and enrollment statements to anticipate its monthly advances from the state.

The Impact

In August of 2005, the two FAME sites opened in Fremont and San Leandro serving initial combined classes of 560 students. They continue to operate at capacity and will soon be accepting applications for the coming year. Demand for the program remains high. As Maram Alaiwat explains, the impact of NFF's loan has been vast:

As a school we focus our energy on staff development of teachers who can "plant seeds of success" by impacting our most valuable resource, children. Many things in life can wait but children cannot. Their senses and their bodies develop daily, and tomorrow is often too late. Nonprofit Finance Fund allowed us to operate today based on successes we will experience tomorrow. Without them we would not have been able to fully support our growth and therefore our ability to serve all the kids that needed our help. Their financial support allowed us not only to expand facilities, but to offer our teachers the high level training needed to teach our future leaders.

NFF's loan allowed BASIS to meet the requirements of Alameda's authorizing agency by providing added security that the school will remain financially viable throughout its reorganization and expansion. Unlike other potential lenders, NFF was prepared to look deeper into BASIS's organization to evaluate the impact of a loan on the organization's short-term health and long-term growth. In addition to allowing BASIS to reach more students with individual learning needs, NFF's loan will help BASIS secure future capital, as FAME has proved to be a reliable borrower capable of managing and repaying debt.

Williamsburg Charter School, Brooklyn, New York

The Williamsburg Charter School (WCS) is a 600 student charter high school, formed through sponsorship from the St. Nicholas Neighborhood Preservation Corporation (St. Nick's). Launched in the fall of 2004, WCS is a public high school of choice, though admission is lottery-based and blind with regards to past academic achievement and student background. The need for a rigorous charter in the Williamsburg area was clear from the lackluster achievement of local public school students—in 2002, an average 43% of students in area public schools had met the minimum standard on English and Math Graduation Assessment Examinations.

Because WCS is designed to be an intensive academic experience leading to college study, WCS students attend many more hours of school than students in an ordinary New York City public school, including a full school day of arts programming on Saturdays. WCS students also benefit from a variety of unique courses and resources, from small advisory groups and extended exploration research projects to world perspectives and technology courses and wellness programs on yoga or capoeira, a Brazilian martial arts dance. The school experience is characterized by a number of innovative elements which help to foster strong school culture, citizenship, camaraderie, and maturity.

The Need

Williamsburg Charter School was the first charter high school in New York City. While most of the senior management staff had experience in operating schools prior to coming to WCS, they decided it was prudent to partner with the New York State and City's Department of Education for guidance and budget planning in starting up the school. Within the first year of operations, it became evident that the budget for a city high school required higher initial expenditures relative to other charter grade levels. As Eddie Calderon-Melendez, CEO and Founder of Williamsburg Charter School, explains:

We were a start-up charter high school, the first in the city, and we had all the elements in place. But the Department of Education gave us [financial start-up] figures based on starting a charter elementary school. By November or December of our first year (2004) we were running a half a million dollar deficit. There were wireless connections, science classes, and furniture expenditures that the department didn't count on. We were in a very serious financial position. We did some staff cuts, but it still was not going to be enough to get us through.

In addition to cutting staff and rescheduling payments to various vendors, WCS was also able to secure loans from St. Nick's and the Fund for the City of New York to help cover some of the initial start-up costs and cash flow issues. However, the simple truth was that WCS needed more working capital to get it through its precarious first year and gain more solid financial footing going forward.

The Situation

Early in 2005, WCS turned to NFF for a \$375,400 working capital loan to help cover some of its initial expenses (namely, repayment of computer technology and textbook purchases); to repay the loan from St. Nick's; and to provide a cash cushion while the school continued to add more students in the coming years. The primary source of repayment for the loan would be cash flows generated by tuition received per student from the NYC Department of Education.

Various aspects of the school's situation made it a potentially risky borrower. First and foremost was the possibility that the school would not reach full capacity in coming years, cutting into the tuition payments it received from the Department of Education. Because tuition payments are WCS's primary source of revenue, reaching capacity for each class is the biggest determinant in the school's ability to meet its annual financial targets. At the time of WCS's loan application to NFF, WCS management was highly confident in its ability to fill each class in the coming years. After a year's performance, the school had established a positive reputation in the community amongst education partners and in scholastic reviews. The school,

which began with only a 9th grade class and grew by adding an additional class each year, had already filled the 10th grade class for the next year with 150 students and an additional 67 students on the wait list. The new 9th grade class had 90 registered students and administrators expected to fill the remaining 60 slots by the end of the 2004 school year.

Secondly, limited fundraising options exist for organizations in an early start-up phase. New organizations, like WCS, can have a difficult time obtaining external funding, as most foundations require a year or more of performance and financial data from potential grantees. Despite this fact, NFF was reassured by WCS's current budget projections, which relied on minimal fundraising to meet its total revenue needs in the coming years. Further, Eddie Calderon-Melendez had come to Williamsburg Charter School with over 15 years in fundraising and development experience, most recently having raised over \$13 million for St. Nick's.

In assessing the organization's overall financial health and ability to repay debt, NFF also considered the pressure that any large future purchase could have on the school's budget. Reassuringly, most of the initial one-time start-up costs had already been incurred. After the first year's experience, management had wisely added contingency for any unexpected expenses into its future budget projections. Also, as WCS adds incoming classes and grows to full capacity, its cost per student decreases (as fixed costs are spread over an increasing number of pupils). Even more encouraging from a budgetary perspective was the fact that the tuition received per student from the Department of Education would increase in each of the coming years.

A final risk to weigh was the possibility that the school's charter would not be renewed, in which case the school would no longer legally exist. Charter renewal is primarily based on charter students achieving higher test scores on the Regents (the state's high school graduation exams) than schools serving similar areas. Many of the basic characteristics of WCS suggest that charter renewal is very likely. Education is the sole priority of the school—it operates eight and a half hours a day, six days each week from late August to early July with 98% attendance. All current teachers have strong education backgrounds and planned to continue teaching into the next school year. Curriculum is focused on achieving Regent exam results and preliminary test scores have been positive. Additionally, WCS's charter is not up for renewal until the end of the 2009 school year, at which point NFF's loan is expected to be paid off.

Meeting the Need

Based on the mitigating risk factors and the increased economies of scale the school can achieve as it adds more students, NFF approved a three-year fixed-rate loan with monthly debt service payment. The primary sources of repayment will be from tuition payments, federal funds and private donations. The loan to WCS was structured within NFF's Credit Policy Guidelines with the exception that WCS has been in operation for less than three years. NFF's experience has shown that organizations best equipped to manage debt have been in existence for more than three years. Despite this exception, NFF loan officers were comfortable providing the loan based on WCS's secure source of tuition revenue from the Department of Education; its strong management team experienced in fundraising, school operations and fiscal oversight; and its regular and strong support from St. Nick's.

The Impact

Williamsburg Charter School's loan highlights the integral role that NFF plays in allowing nonprofits access to sources of capital critical to their continued viability and future success. In the case of WCS, future revenue streams were secured and management had displayed proactive responsibility in adjusting the school's budget to more accurately reflect its actual operating costs. Despite these strengths, WCS was hard pressed to secure the funds necessary to stabilize the school's financial picture from traditional lenders or grant makers. By taking a closer look at the school's underlying business, NFF was able to provide the needed funding to WCS and feel comfortable doing so. As Eddie Calderon-Melendez explained, NFF's loan has helped the school to stabilize its financial picture and focus its energy on ensuring the academic achievement of its students:

By the 2005 school year we had 300 students and our financial picture changed dramatically. NFF came to the rescue in more ways than one. We had zero years of financials behind us to show them, but we were very together organizationally and management-wise. NFF's loan application review almost served as an audit for us, which was fantastic. They helped us stabilize, pay off debtors and leave some money in the bank. They gave us room to breathe in terms of growing in year two and that really helped me, as the CEO, zone in on areas that needed to stay tight. The school is excelling on all levels. We have a 9th and 10th grade and are about to add 11th. Our attendance is 95 percent and we had almost 100 percent passing in the Math Regents.

Conclusion

The case studies presented here illustrate how Nonprofit Finance Fund's loans enable the educational organizations that NFF serves to improve and expand their vital services and achieve important results for the young people they reach. While lending to nonprofits can be perceived as risky, many of NFF's loan recipients, including those highlighted above, demonstrate the beneficial role debt can play in an organization's managed growth. The financial discipline that loans require is beneficial to nonprofit managers not only in a pedagogical sense, but perhaps more importantly in the credibility it provides for future borrowing from other lenders. Additionally, the case studies demonstrate NFF's lending philosophy at work. As Maureen Holla said, "NFF looks further than an organization's balance sheet to see its potential." NFF surely aims to do so, striving to honor the long-term health and viability of nonprofit programs.

While recognizing that debt is only one tool in a larger capitalization toolbox of equity, technical assistance, and advisory services, NFF also recognizes that our lending service is increasingly filling a niche in the nonprofit sector's capital market. From 2000 to 2005, NFF reviewed in excess of 500 applications totaling \$200 million. Our loan portfolio has more than doubled in size over just three years, with a particularly marked growth in loans to education and youth-serving organizations. Aware that NFF is a small part of the nonprofit market, we are led to believe there is even more demand to fill.

In an effort to assess the particular needs of education organizations, and more generally, those involved in youth-serving activities, NFF recently performed preliminary market research on the more than 20,000 nonprofits with revenues between \$500,000 and \$20 million located in areas where NFF has offices. Honing these results to identify those organizations whose mission is to meet the needs of underserved, "at-risk" youth, NFF identified 2,500 education and youth-serving organizations in our market. Nearly 40% of these organizations are physically located in economically deprived and neglected neighborhoods—with even more devoted to alleviating the poverty cycles that adversely affect their clients. Though the financial conditions of these education and youth-serving organizations are diverse and complex, NFF found some initial indicators for working capital and facilities financing needs: approximately 35% of these organizations have less than one month's worth of cash on hand; another 58% receive no government grant dollars; and in terms of real estate, less than 40% of these agencies own their properties. These data confirm NFF's experience: there is a strong demand for capital provision in the nonprofit market.

NFF's lending seeks to fill this gap in available credit, which needs to be considered in the context of building healthy and viable nonprofit enterprises. NFF will succeed if it is able to increase the flow of funds to meet nonprofits' capital and growth needs, make successful loans, maintain its own financial health, and, more generally, support nonprofits in providing services and realizing their missions.

Related Tables

Educational or Youth Serving Organizations Receiving Loans from NFF: 2003-2005

	2003	2004	2005	Combined Total
Number of Organizations	15	22	40	77
Dollar Value of Combined Loans	\$5,167,125	\$8,483,113	\$21,736,700	\$35,386,938
Total Number of NFF Loans	52	60	85	197
Total Dollar Value of Combined Loans	\$15,940,485	\$21,046,112	\$33,589,910	\$70,576,507
Youth Serving Organizations as a Percent of Total NFF Loan Recipients	29%	37%	47%	38%
Dollar Value of Loans to Youth Serving Organizations as a Percent of Total NFF Dollars Lent	32%	40%	65%	46%

Education and Youth-Serving Organizations in NFF's Market

NFF Location	Total Number of Youth Organizations	Youth Organizations in Investment Areas		Youth Organizations in Hot Zones*	
		#	%	#	%
Detroit	77	31	40.3%	20	26.0%
Philadelphia	175	28	16.0%	29	16.6%
San Francisco	300	100	33.3%	25	8.3%
New Jersey	392	158	40.3%	75	19.1%
Washington D.C.	369	132	35.8%	43	11.7%
New York	546	254	46.5%	143	26.2%
New England	640	268	41.9%	125	19.5%
Total	2,499	971	38.9%	460	18.4%

*This information was compiled using 2005 GuideStar data; *Hot Zones are economically distressed communities designated by the CDFI Fund*



Nonprofit Finance Fund