Accounting for Kids: The Financial Structure and Fiscal Health of Nonprofit Child and Youth Providers in the D.C. Metropolitan Region

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Executive Summary

Nonprofit organizations in the Washington, D.C., region are vital players in the lives of local children and youth, providing a host of much needed services, such as afterschool programs, tutoring and mentoring, youth development activities, child care, and many more. In total, there are more than 1,100 local nonprofit providers of child and youth services in the D.C. metro area. These providers currently face difficult social and economic challenges. From rising social service needs that impact demand for services to state and local budget shortfalls that can jeopardize funding flows, child and youth nonprofits in the region confront tough choices about how to maintain service levels.

Improving the lives of children and youth, particularly in challenging social and economic times, requires that local providers have sound financial structures and maintain good fiscal health. Currently very little is known about the financial well-being of child and youth nonprofits in the D.C. metro area. It is important to know, however, how these groups are faring, because understanding their financial strengths and weaknesses can facilitate strategic grantmaking and effective public policy. This report closely examines the finances of local child and youth nonprofits in 2000 and the changing finances of a panel of local providers from 1998 to 2000. The report provides the first systematic examination of the fiscal picture of nonprofits that serve children and youth in the region and yields the following key findings.

Local nonprofit organizations that serve children and youth in the D.C. region had more than $1.5 billion in revenue in 2000.

- The more than 1,100 local providers also had total expenses of $1.3 billion and assets of $1.9 billion in 2000. Despite comprising a billion-dollar service field, nonprofit child and youth providers are significantly smaller, on average, than other types of nonprofits in the region.
- Local nonprofit child and youth providers in the region relied on client fees for more than half of their income in 2000.
- Among local child- and youth-related nonprofits, 83 cents of every dollar was spent on programs and services in 2000.
- Spending on fundraising and administration was relatively low in the region's child and youth service field in 2000.

Many child and youth nonprofits in the region showed signs of fiscal stress in 2000.

- Nearly one-third of local nonprofits that serve children and youth lost money in 2000.
- Although many child and youth nonprofits were financially stressed in 2000, nonprofit primary and secondary (non-charter) schools fared well financially.
- Compared with local private schools, most other child and youth groups in the region ended 2000 with relatively few assets.

The fiscal health of child and youth nonprofits varied widely across communities.

- Among all jurisdictions in the region, Manassas and Fairfax had the financially strongest nonprofit child and youth sectors in 2000, ranking high on multiple fiscal health measures. These communities had *thriving* child and youth fields that year.
- On many fiscal health rankings, the District, Montgomery County, Alexandria and Falls Church had reasonably strong sets of child and youth nonprofits in 2000. These localities had *striving* nonprofit child and youth sectors that year.
- Loudoun, Arlington, Prince George's, Prince William, and Frederick counties had child and youth nonprofits that, on the whole, ranked near the bottom among all jurisdictions in the region on multiple fiscal health measures in 2000. Taken together, these communities had child and youth fields that were financially *surviving* in 2000.

For many child and youth nonprofits in the region, fiscal stress increased between 1998 and 2000.

- Expenses grew faster than revenues from 1998 to 2000 at the typical child and youth nonprofit in the D.C. region.
- Local child- and youth-related nonprofits, as a whole, became slightly more reliant on user fees between 1998 and 2000. Heavy dependence on user fees can be troublesome for organizations when the ability of clients to pay is reduced.
- There was little change in the proportional spending on programs, administration and fundraising by child and youth nonprofits between 1998 and 2000. The percentage spent on management and fundraising costs remained low.
- The percentage of local child and youth nonprofits that lost money was higher in 2000 than in 1998, and, by 2000, budgets had tightened at nearly half of all providers.
- Although operating margins at many local providers were shrinking, net assets in the child and youth service field increased substantially between 1998 and 2000.

Taken together, the findings show that many nonprofits that serve children and youth in the D.C. area showed signs of fiscal stress in 2000, one year before the 9/11 attacks on the Pentagon and the World Trade Center that exacerbated the decline in the D.C. regional economy and helped to create a growing set of social and economic challenges that linger today. Clearly, not all child and youth nonprofits fared badly. In fact, nonprofit private schools experienced considerable financial success in 2000. But many providers in the region were on shaky financial ground at the beginning of 2001. Such budgetary circumstances can negatively affect both the quantity and quality of nonprofit services.

In the end, the disparities in the fiscal health of child and youth nonprofits across jurisdictions in the region highlight the need for public action, although the applicability of policy choices varies by type of community. For jurisdictions with financially weak child and youth service fields, for example, local officials may need to carefully review the structural relationships among local child welfare agencies and front-line nonprofit providers to determine if regulatory or contractual changes are needed. For communities that have fiscally strong providers, local officials might consider a strategy that monitors the financial health of child and youth nonprofits and acts quickly with infusions of funding or regulatory changes if the fiscal viability of their local providers begins to decline. Indeed, localities with financially strong child and youth sectors cannot be complacent as the social and economic environment in the region continues to change.

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Nonprofit organizations in the Washington, D.C., region are vital players in the lives of local children and youth. These groups provide a host of much needed services, such as afterschool programs, tutoring and mentoring, youth development activities, child care, and many more. In total, there are more than 1,100 local nonprofit providers of child and youth services (table 1). Some providers, such as the Girl Scouts of the National Capital Region, annually serve thousands of children and youth in the region (Community Wealth Ventures, Inc. 2003). Others, like Bright Beginnings in the District, have much smaller—but still important—operations. Regardless of their scope of services, all of these providers are tied together with the common goal of making the lives of local children and youth better and more prosperous.

But child and youth nonprofits in the D.C. area face difficult challenges now. From rising social service needs that impact demand for services to state and local budget shortfalls that can jeopardize funding flows, local providers confront tough choices about how to maintain service levels (Atkins et al. 2004).

Improving the lives of children and youth, particularly in challenging social and economic times, requires that local providers have sound fiscal structures and maintain good fiscal health. Investing to build their operational and technical capacity, for example, can help nonprofits attract and retain qualified staff and meet contracting and reporting requirements. Budget surpluses and assets can help local child and youth providers overcome difficult short-term financial situations.

Currently very little is known about the fiscal structure and financial well-being of local child and youth nonprofits in the D.C. metro area. It is important to know, however, how these groups are faring fiscally, because understanding their financial strengths and weaknesses can facilitate strategic grantmaking and effective public policy. This report closely examines the finances of local child and youth nonprofits in 2000 and the changing finances of a panel of local groups from 1998 to 2000. This period, which occurred before the attacks of September 11, 2001, the decline in stock market, and the local economic downturn, can be regarded as a high water mark for the fiscal health of nonprofits (De Vita and Twombly 2003). The report provides baseline indicators of the financial status of nonprofits that serve children and youth in the D.C. region by addressing the following questions:

- How much do local child and youth nonprofits in the region have in revenue, expenses, and assets?
- On what sources of revenue do these organizations depend, and how do they spend their income?
- How many groups had revenues that exceeded expenses in 2000, and how many ended the year with positive net assets (that is, where total assets exceeded total liabilities)?
- To what extent did the financial health of child and youth nonprofits vary across local communities in 2000?
- How did the finances of these groups change between 1998 and 2000?
- How did their administrative costs change during this period? Did it become more expensive to provide programs and services?
- Did more child and youth nonprofits struggle fiscally in 2000 than in 1998? That is, were more organizations operating in the red in 2000?
- To what extent did net assets grow from 1998 to 2000, and how did changes in net assets vary by type of child and youth service?

Data and Conceptual Framework

The data for this study were obtained from the National Center for Charitable Statistics (NCCS) at the Urban Institute, as well as several grantmakers in the D.C. region. The dataset, entitled the D.C. Regional Nonprofit Database, was constructed in the fall of 2003 and cleaned and verified during the winter of 2003–2004. It contains fiscal year 2000 data from nonprofit organizations that filed the Form 990 with the U.S. Internal Revenue Service (IRS). The dataset contains information on the chief location or headquarters of each nonprofit organization, and represents the most reliable, unduplicated count of nonprofit child and youth providers in the region. A detailed description of the dataset is provided in appendix A.

The study uses information in the database to divide direct service child- and youth-related nonprofits into three categories: education, youth development, and social welfare. See appendix B for additional information on these categories.

- **Education** providers include preschools and early childhood educational providers; K-12 private schools; charter schools in the District of Columbia; and other education providers, including libraries and groups that supply afterschool or tutoring programs. Of the 1,114 local nonprofit child and youth providers in the region, 292 (23.3 percent) are education-related (table 1).
- **Youth development** includes community facilities, youth centers, scouting and 4-H, and youth sports leagues, and camps. There are 306 local nonprofits (or 27.5 percent of all providers) that focus on youth development.
- **Social welfare** includes groups that focus on adoption, foster care, the prevention of abuse and neglect, child care, physical and mental health, crisis intervention and counseling, delinquency prevention, and groups that provide multiple services that directly impact children. Social welfare is the largest category of local child and youth nonprofits. Of the 1,114 groups that serve children and youth in the region, 516 (46.3 percent) supply social welfare services.

To examine changes in the financial status of local providers, the study uses a panel of organizations that filed Form 990 in fiscal year 1998 and 2000. Form 990 data for fiscal year 1998 were obtained from NCCS and matched to the D.C. Regional Nonprofit Database. Of the 1,114 local child- and youth-related nonprofits in the D.C. region, 635 (57 percent) are included in the panel. Panel organizations, on average, are significantly larger financially, older, and more likely to work in the youth development field than groups that filed Form 990 only in 2000. There are no statistically significant differences between the panel and other groups by location in the region.

There are two important data limitations. First, the data do not contain information on satellite programs and mobile services, even though some nonprofit providers operate in multiple communities or several neighborhoods within specific jurisdictions in the D.C. metropolitan area. Therefore, this report does not address the connectivity or coverage of all nonprofit programs for children and youth in the region. Second, because the data are largely financial, rather than programmatic, the study does not address the quality or efficacy of local services. Despite these limitations, the report provides the first systematic examination of the financial picture of nonprofits that serve children and youth in the region.

FINDINGS

The findings of the analysis are presented in five sections. The first two sections describe the financial structure and fiscal health of local child and youth nonprofits in 2000. The third section explores the relative well-being of local providers across jurisdictions in the D.C. region that year. The latter sections examine how the financial scope and vitality of select child and youth nonprofits changed between 1998 and 2000. Taken together, the findings generally show a set of organizations that, despite considerable growth in revenues and expenses, have seen their budgets tighten over time.

The Financial Structure of Nonprofit Child and Youth Providers in the D.C. Region

Recent research shows that the financial resources of child- and youth-serving nonprofits in the D.C. metro area are relatively limited (Twombly 2004). Although these providers had aggregate revenues of $1.5 billion, expenses of $1.3 billion, and assets of $1.9 billion in 2000,[1] they are significantly smaller, on average, than other types of nonprofit organizations in the region (table 2). The average local child and youth nonprofit had revenues and expenses of roughly $1.7 million and $1.5 million, respectively, in 2000. In contrast, the average revenues and expenses for the entire nonprofit sector in the region were $4.3 million and $3.8 million, respectively. There were also significant differences in assets. The average local child and youth service provider held $2.2 million in assets, compared with $8.5 million for the region's nonprofit sector as a whole. While part of this finding is attributable to the substantial financial resources of local universities, colleges, and hospitals, the median—or typical—local child and youth provider has smaller financial assets than other groups in the D.C. area nonprofit sector.

Research also found that financial resources are not equally distributed among different types of local child and youth nonprofits in the region (Twombly 2004). Indeed, some types of providers are significantly larger than others. For example, with average revenues of $4.1 million and expenses of $3.4 million, local private schools, excluding charter schools in the District, constitute the largest type of local child- and youth-related nonprofit in the D.C. area (table 2). Local scouting organizations and sport leagues, which often serve school-aged youth from a mix of socioeconomic backgrounds, have significantly smaller budgets. With average revenues and expenses of $437,000 and $377,000, respectively, these local providers are the smallest type of child and youth nonprofit in the region.

Variation in the financial scope of local nonprofits that serve children and youth has important implications for effective capacity building efforts and public policy decisions. That some service fields have relatively small financial resources may necessitate philanthropic or governmental intervention to expand the ability of local providers to supply consistent and high quality services. But capacity building plans and investment strategies must also be predicated on knowing the sources of nonprofit income and the manner in which local providers spend their financial resources. An examination of the reliance on revenue sources and expense patterns of child- and youth-serving nonprofits in the D.C. region yields the following key findings.

- **Local child- and youth-related nonprofit organizations in the D.C. metro area relied on client fees for more than half of their income in 2000.**

Local providers obtain revenue from several sources, including charitable donations from individuals, foundations, and corporations; government grants and contracts; client fees; and many more.[2] But the mix of revenues used by child and youth nonprofits depends on

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[1] Financial information is restricted to organizations that filed Form 990 with the Internal Revenue Service in 2000. Of the 1,114 local child and youth nonprofits in the region, 882 (or roughly 80 percent) submitted a Form 990 that year.

[2] It is difficult to obtain a precise measure of government support from the Form 990 data because it can be listed in two places on the form (De Vita and Twombly 2003). Income for services that specifically benefit a government entity (such as a nonprofit that provides food services in a government building) should be reported as program service revenue, that is, fee-for-service. Revenue for services that benefit the general

the types of services they supply. For example, community youth centers, community-based health providers, crisis intervention nonprofits, delinquency prevention organizations, and multipurpose nonprofits relied most heavily on charitable donations in 2000 (table 3). On the whole, however, client fees constituted the largest source of support for local providers. Indeed, more than 50 percent of revenue in the child- and youth-related field came from fees-for-service, including tuition paid to private schools, registration fees for youth camps, and payments for counseling. Early childhood educational providers and child care were particularly reliant on fee-for-service income—roughly four of every five dollars in income for these groups came from client fees. The heavy reliance on fees by some providers raises important questions for their financial sustainability during local economic downturns when the ability of clients to pay for services is often hindered.

Private donations are the second most important revenue source (26 percent), followed by government grants and contracts (12 percent) and other sources (12 percent), including commercial revenue (table 3). Research has demonstrated the large role played by government in funding nonprofit human services (Bowman 2003; Gais et al. 2003; Smith 2002). The vital role of government support is apparent for some—but not all—local child and youth nonprofits in the D.C. area. For example, charter schools in the District received more than $4 of every $10 from governmental sources in 2000—a greater proportion than any other type of child and youth provider in the region. But table

public, a set of clients, or individual recipients should be reported as government contributions or grants—for example, a nonprofit that has a youth development program. In practice, however, there is some confusion. Income from vouchers, for example, may be reported incorrectly as fee-for-service rather than as a government contribution. As a result, client fees may be overestimated, while government contributions may be underestimated. Although the extent of this problem is unknown, the analysis suggests that it is not a major problem. Service providers such as delinquency prevention and charter

3 appears to reveal an important reality of alternative educational provision in the District: charter schools that filed Form 990 with the IRS reported that nearly half of their income was fee-for-service in 2000. This finding suggests that families, often from low-income backgrounds, were subsidizing government support for the activities and programs of D.C.-based charter schools.

For some nonprofits serving children and youth in the region, government was a relatively minor funder in 2000. Child care providers, recreation centers, scouting and youth sports received less than 10 percent of their revenue from government (table 3). For scouting and youth sports, government support accounted for roughly two cents of every dollar they raised in revenue. These local groups were more heavily tied to client fees (39 percent) and other sources (34 percent), such as the sale of goods and inventory. Commercial activity has become a prominent method for nonprofit organizations to diversify their revenue base (Tuckman 1998). Except for scouting groups and youth sports, however, income from commercial ventures appears to have played a relatively minor role in the local child and youth nonprofit field.

- **Among local child- and youth-related nonprofits in the D.C. region, 83 cents of every dollar was spent on programs and services in 2000.**

Recent scandals have shaken public confidence in charities (Light 2000; Salmon 2002) and raised questions about how nonprofit organizations in the region use their resources (Moreno et al. 2004). Data suggest, however, that nonprofits that serve children and youth in the D.C. metro area, by and large, focus their spending heavily on programs. In fact, local providers reported that they spent 83 percent of their budgets on direct services

schools that were reasonably expected to receive substantial government funding did so, while services such as child care were heavily dependent on fee-for-service income.

for children and youth in 2000 (table 4). This finding illustrates the significant orientation in the local child and youth field toward program service output. Some groups spent at even higher proportional levels. For example, scouting and youth sports used 88 percent of their budget for direct programs and services.

High spending on direct services is not without financial risk, however, and can come at the expense of investments in the infrastructure and technical capacity of nonprofit providers. Moreover, "overspending" on direct program provision can place local groups in precarious financial positions if revenues decrease or program costs rise. Indeed, research suggests that nonprofits with higher program spending are more financially vulnerable than other groups in hard financial times because they have less budgetary fat to trim (Chang and Tuckman 1993).

- **Spending on fundraising and administration was relatively low in the region's child and youth service field in 2000.**

In contrast to high spending on programs and services, proportionally low spending on fundraising and administrative costs was the norm for local child and youth nonprofits in 2000. Indeed, only 2 percent of the budgets of local providers were applied to fundraising that year, compared with the 3 percent allocated to fundraising by the regional nonprofit sector as a whole (table 4).[3] While a 1 percent budget shift may seem marginal, it equates to $3,000 less in spending on fundraising for a local child and youth nonprofit with an operating budget of $300,000. The data also suggest that local providers in some service

[3] Pollak (2004) notes that information on fundraising from IRS Form 990s should be interpreted carefully and that some underreporting of fundraising costs is apparent, although its magnitude is unknown. But Pollak also notes several plausible explanations for why nonprofit organizations might have zero fundraising costs, including the reliance on volunteers or boards to stimulate donations; the use of special events, which may not be reported as fundraising on the Form 990; and the dependence on umbrella organizations or federated campaigns to generate donor support.

fields may have eschewed fundraising in favor of greater spending on programs and services in 2000. Child care providers and early education nonprofits, for example, spent only about 1 percent of their budgets on fundraising, despite the fact that these expenses can attract donor support.

Spending on administrative costs is also relatively low in most child and youth service fields. Roughly 14 percent of budgets of local providers were spent on management in 2000, compared with 17 percent for the broader nonprofit sector in the region (table 4). Only charter schools (24 percent), community recreation and youth centers (21 percent), and K–12 (non-charter) schools (17 percent) spend as much or more proportionally on administration and management as the region's nonprofit sector as a whole. As table 5 shows, child and youth nonprofit in the region, on average, spent $265,000 on administration and management, an amount that is far below the average for the nonprofit sector ($580,000). Some groups, such as scouting organizations, youth sports, and nonprofits that focus on delinquency prevention spend less than $100,000 annually on management. Few groups had relatively high management costs. In fact, only 8 percent of local child and youth nonprofits spent more than 30 percent of their budgets on administration, compared with 15 percent of all nonprofits in the region (table 5).

Administrative costs cover basic necessities like liability insurance coverage, rent, and utilities, and are essential to the effective operation of nonprofit organizations. Administrative costs also include staff salaries and benefits, which, if set too low, can result in the loss of talented employees. So while reasonably low spending rates on fundraising and administration by most child and youth nonprofits in the region may paint them in a favorable light among donors, funders, and government, insufficient non-program spending may jeopardize their financial future.

The Fiscal Health of Child and Youth Nonprofits in the D.C. Region

Given the underlying financial structure of the child and youth nonprofits in the D.C. metro area, it is important to examine their fiscal health, which, broadly defined, is the extent to which local providers have the resources to sustain their service delivery over time and withstand new financial pressures. Research has explored in some detail the issue of the fiscal health of nonprofit organizations (see De Vita and Twombly 2003; Greenlee and Trussel 2000; Hager 2001; Tuckman and Chang 1991, 1993).

This report builds on existing research to assess the financial health of local child and youth nonprofits along two key measures: operating margins and net assets. An operating margin is the difference between total revenue and total expenses in 2000, and shows whether the local provider operated with a budget surplus or lost money during the year. Local providers with positive operating margins may be more financially stable than those with negative margins. Net assets equal the difference between total assets and total liabilities in 2000. This measure serves as a proxy for the economic “worth” of a local child and youth nonprofit and indicates the financial reserve on which it may draw if times get tough. Greater net assets may indicate greater fiscal health among local providers. Examining the financial well-being of local child and youth nonprofits on these measures reveals the following key findings.

- **Nearly one-third of nonprofits that serve children and youth in the D.C. metro area lost money in 2000.**

Well before the events of September 11, 2001, and the downturn in the local economy, some local child and youth nonprofits in the region showed signs of fiscal stress. In fact, of the 882 local nonprofits for which financial data are available, 30.6 percent (or 270 groups in total) had expenses that exceeded revenues in 2000 (table 6). But 2000 was generally a tough financial year for many types of nonprofits in the region. For the regional nonprofit sector as a whole, one-third of all organizations lost money. The bottom line is that the financial struggles of nonprofits in the D.C. region predated the 9/11 attacks, and were not confined to the local child and youth service field.

While financial losses occurred throughout the region's nonprofit sector in 2000, local child and youth nonprofits ended the year with fewer resources than the sector as a whole. The median or typical operating margin for local child and youth nonprofits was 4.5 percent (table 6) in 2000, and represented the budget surplus that these providers carried into 2001. The entire nonprofit sector in the D.C. region performed slightly better in 2000 by posting a median operating margin of 5.7 percent. The 4.5 percent operating margin translates into roughly $9,000 that could be carried forward to 2001 by the typical provider. Some groups worked with very tight margins. Kids Under Construction Preschool, located in Sterling, Virginia, had revenues of $193,751 and expenses of $191,718 in 2000, leaving it with a budget surplus of roughly $2,000 as it entered 2001.

Examining specific types of providers, the data show that financial losses were particularly prominent among community recreation facilities and organizations that focus on delinquency prevention. More than 40 percent of these groups had negative operating margins in 2000. But very large budget declines occurred in many child and youth service fields. For example, one D.C. public charter school reported revenue of roughly $103,000 and expenses of $365,000, equaling a net loss of $262,000 in 2000.

- **Although many child and youth nonprofits were financially stressed in 2000, primary and secondary (non-charter) schools in the region fared well financially.**

Three key facts characterize the financial performance of primary and secondary (non-charter) schools in the D.C. region in 2000. First, more than 80 percent turned a "profit"—that is, had revenues that exceeded expenses. Second, the average K–12 school had an operating margin of more than $700,000 that year (table 6). Third, on the whole, local private schools ended 2000 with very high net worth, compared with other local child- and youth-related providers. In fact, local private schools, on average, had net assets (that is, total assets minus total liabilities) of more than $6 million (table 7). The local child and youth field had average net assets of roughly $1.5 million in 2000. With $206.3 million in net assets in 2000, Protestant Episcopal High School in Alexandria was the wealthiest local private school—and the highest net worth provider in the D.C. region. Part of the high net assets of local private schools relates to the ownership of local real estate, which increased markedly in value in the D.C. region in the last decade.

Taken together, these findings show a collection of educational groups with comparatively high financial capacity. But while private schools play an important role for school-aged children in the region, they often do not reach the most at-risk students.

- **Compared with local private schools, most child and youth groups in the D.C. region ended 2000 with relatively little capital.**

Although the net worth of the average local provider was roughly $1.5 million at the close of 2000, much of this mean amount relates to the high net worth of K–12 (non-charter) schools. Looking at the child and youth service field more broadly reveals a much smaller and less capitalized set of organizations. In fact, the median—or typical—child and youth group in the region ended 2000 with net assets of $95,000.

For some types of providers, net assets were relatively scarce. For example, the typical preschool and early education provider in the D.C. region had net assets of $39,000 at the end of 2000 (table 7). Potentially more troubling is that only 71 percent of delinquency prevention groups had total assets that exceeded total liabilities at the end of that year. The remaining 29 percent of nonprofits that focus on delinquency prevention had debt that exceeded their assets in 2000. This finding raises concerns for the ability of some local providers that, in times of fiscal trouble, may need to sell their assets to generate cash or leverage them as collateral for loans.

Thriving, Striving, and Surviving Jurisdictions: Variation in the Fiscal Health of Child and Youth Nonprofits across Communities

Not all jurisdictions in the region are on equal financial footing (Atkins et al. 2004), though each has faced considerable increases in the need for child and youth services in the past 15 years. According to data from the U.S. Bureau of the Census, there were roughly 860,000 children under the age of 18 in the D.C. area in the 1990s. By 2000, the number of children in the region had grown to more than 1 million. Not only are there a larger number of children to serve, but there are also more children who do not speak English at home. In 1990, roughly 15 percent of youth over age 5—or 89,600 in total—spoke a different language at home. By 2000, the share of the youth population fitting this profile had grown to 22 percent—or 166,100 in total. The demand for multilingual services is especially high in the close-in suburbs. In Arlington, Alexandria, and Montgomery County, the share of children who speak a language other than English at home is nearly one-third of the total youth population.

While this study does not correlate specific community conditions to the financial health of child- and youth-related groups at the local level, the data show significant variation in the fiscal well-being of local providers across jurisdictions in the region. Unlike previous sections of this report that focused on organizations, the following section treats the locality as the unit of analysis and provides findings on the collective financial health of all child and youth nonprofits that are located in a given community. The section uses rankings on a series of fiscal health measures to categorize the relative fiscal health of child and youth services in the region's jurisdictions by three broad types: thriving, striving, and surviving. Using this typology, three findings stand out.

- **Thriving localities: Among all jurisdictions in the region, Manassas and Fairfax had the financially strongest nonprofit child and youth sectors in 2000.**

Manassas had child and youth nonprofits that, as a group, had the highest median operating margin ($17,000), the greatest margin as a percentage of revenue (9.6 percent), and the lowest percentage with budget deficits (18.2 percent) in 2000. Moreover, all child and youth nonprofits in Manassas ended 2000 with positive net assets. Local providers in Fairfax, on the whole, also performed well financially in 2000. Table 8 shows that Fairfax had child and youth groups that ranked third among all jurisdictions on three important measures, including percentage operating margin (5.4), median net assets ($107,000), and the percentage of providers that ended 2000 with positive net assets

(96.8). In many respects, both Manassas and Fairfax had sets of child and youth nonprofits that were thriving financially by the close of 2000.

- **Striving localities: The District, Montgomery County, Alexandria, and Falls Church had reasonably strong sets of child and youth nonprofits in 2000.**

Each of these communities had collections of child and youth nonprofits that performed well on at least one measure of fiscal health. For example, the District had child and youth nonprofits that, as a group, had the highest median net assets in the region in 2000. Montgomery County's child and youth providers ranked second among all jurisdictions in the median size of their operating margin (i.e., budget cushion). On the whole, providers in Falls Church were more likely than groups in other jurisdictions in 2000 to have assets that exceeded liabilities. Alexandria ranked second behind the District in median net assets in its child and youth service field. Taken together, child and service nonprofits in these localities were striving financially in 2000.

- **Surviving localities: Loudoun, Arlington, Prince George's, Prince William, and Frederick counties had relatively weak child and youth serving sectors in 2000.**

As a group, local providers in these communities experienced some substantial financial problems in 2000, suggesting that these localities contained organizations that were struggling to make ends meet during that time. For example, the set of providers in Loudoun County ranked near the bottom of all jurisdictions in the percentage that ended 2000 in the black (that is, where revenues exceeded expenses) and in the median size of their net assets (table 8). Arlington ranked in the bottom third of all communities in four of the five fiscal health measures in this study.

But among all communities in the D.C. region, Prince George's, Prince William, and Frederick counties had the financially weakest collections of child and youth providers in 2000. Roughly 88 percent of nonprofit child and youth groups in Prince George's ended the year with positive net assets, ranking the county tenth among the 11 jurisdictions in the study (table 8). Prince William County ranked last among localities on the median operating margins for local children and youth serving nonprofits (roughly $2,000) and the percentage of providers that operated in the black in 2000 (54.2 percent). In Frederick County, nonprofit child- and youth-related groups ranked near the bottom in percentage operating margin (2.6 percent), median net assets ($36,000), and local groups ending 2000 with positive net assets (89.7 percent). Taken together, the financial strengths and weaknesses of child and youth serving populations vary in Prince George's, Prince William, and Frederick counties, but each locality scores relatively low on multiple measures, when compared with other jurisdictions in the study.

More research is required to determine the underlying reasons for the relative financial success of the organizations in Manassas and Fairfax and the comparative fiscal shortcomings in other communities. One possible explanation is sound fiscal planning by local providers. Another reason is strong philanthropic initiative and the availability of charitable resources in the D.C. region. A recent report by the Washington Regional Association of Grantmakers (2003) estimates that charitable contributions from individuals topped $5.2 billion in jurisdictions in this study in 2001. Charitable donations in Fairfax County and Fairfax City alone were more than $1.2 billion that year. While not all of these monies flow to groups that serve children and youth in Fairfax, at least some proportion stays in the jurisdiction. Charitable donations are crucial to the health and viability of local providers. In fact, child- and youth-related nonprofits that received the majority of their income from donor contributions were more likely to operate in the black in 2000 than groups that rely most heavily on either government or fee-for-service income, even when controlling for other factors such as organizational size, service field, and location. While private philanthropy tends to play a smaller role than fee income in supporting the region's child and youth organizations, it provides an important underpinning for the financial well-being of local providers.

Changes in the Fiscal Structure of Child and Youth Nonprofits in the D.C. Region, 1998–2000

A significant question in the child and youth service field is how the financial viability of local providers has shifted over time. The following section explores this issue in detail by assessing changes in the financial structure of a panel of child and youth nonprofits in the region between 1998 and 2000. The panel includes local providers that filed Form 990 with the IRS in fiscal years 1998 and 2000. Of the 1,114 local child- and youth-related nonprofits in the D.C. region, 635 are in the panel. Panel organizations, on average, are significantly larger financially, older, and less likely to work in the youth development field than groups that filed Form 990 only in 2000. Although there are no significant differences between the panel and other groups by locality in the region, the data should be interpreted carefully. With these caveats in mind, an analysis of the changing fiscal structure of local providers yields the following key results.

- **Expenses grew faster than revenues from 1998 to 2000 at the typical child and youth nonprofit in the D.C. region.**

On average, the financial scale of the child and youth field grew substantially during this period, although the rate of growth significantly trailed the region's nonprofit sector, as a whole. Indeed, revenue and expenses for the average nonprofit child and youth group increased by $366,000 and $302,000, respectively, between 1998 and 2000 (table 9). The average gain in assets ($636,000) was even greater during this period. In contrast, the average revenues and expenses in the region's entire nonprofit sector expanded by more than $800,000—a growth rate that is nearly 2.5 times the average increase in the child and youth field. Average asset growth ($1.97 million) in the region's nonprofit sector was more than three times larger than the increase at child and youth nonprofits.

A considerable amount of the financial growth in the child and youth service field was fueled by the rapid expansion of local charter schools. The revenues and expenses of the average charter school increased by more than $1 million from 1998 to 2000. The Cesar Chavez Public Charter School for Public Policy in the District was one group that saw a tremendous fiscal expansion. In 1998, it reported $97,624 in revenue. By 2000, revenue was more than $1.72 million. The tremendous budget expansion at Cesar Chavez generally reflects the trend at charter schools in this study. In fact, five of the six charter schools in the panel saw their revenue increase by at least 175 percent during this period.

But these average figures are vastly different than the financial experience of the typical—or median—local child and youth nonprofit during this period. Not only did the budget of the typical local provider expand modestly from 1998 to 2000, but the increase in expenses also outpaced growth in revenue. Indeed, the median provider saw its revenues grow by roughly $53,000, but the median expense increase was $58,000, suggesting that the typical child and youth nonprofit had lost some financial ground by the close of 2000. Median assets also increased modestly, up by roughly $39,000 from 1998 to 2000.

Some of the hardest hit service fields during this period include early education providers, community facilities and youth centers, scouting and sports leagues, child care and crisis intervention, and counseling nonprofits. For all of these service industries, median expenses increased faster than median revenues between 1998 and 2000. Even the typical private K–12 (non-charter) school saw their revenue growth eclipsed by the increasing cost of provide educational services.

- **Local child- and youth-related nonprofits in the region, as a whole, became slightly more reliant on user fees between 1998 and 2000.**

Like in 2000, government and donor contributions played supporting roles in funding local child and youth organizations in 1998. In contrast, fee-for-service income was the predominant funding source for child and youth groups in the D.C. metro area throughout this period. Even before the economic downturn and drop in philanthropic giving in the region following the events of 9/11, many local providers had tied their operations to the ability of their clients to pay for services. Not only did fee income comprise the primary funding source for the child and youth field during these two years, there was also a slight increase in dependence among local providers on user fees. In 1998, client fees comprised less than half of the income of local child and youth nonprofits. By 2000, fees generated more than 51 percent of revenue for these groups.

For some types of providers, the increase in reliance on client fees from 1998 to 2000 was substantial. For example, the proportion of revenue coming from user fees grew by 8 percent at community recreation facilities and 6 percent at child care providers.

More information is needed to determine if the shift toward fee-for-service income by local child and youth groups was borne out of financial necessity or was actively pursued as a method to generate additional revenue, and whether the trend continued through the difficult financial times in the region that followed the 9/11 attacks. But the increase in reliance on user fees can spell financial trouble for local nonprofits, because, as research suggests, fee-for-service income is a relatively unstable revenue source in the human service field, and its unpredictable nature can restrict the ability of groups to plan for the future (Gronbjerg 1993).

Among specific types of local child and youth nonprofits, charter schools experienced the most significant shift in revenue composition between 1998 and 2000. In 1998, charter schools received more than three-quarters of their income from government. By 2000, government accounted for less than half of their revenue of the District’s charter schools. In contrast, client fees, which comprised roughly 10 percent of the income of charter schools in 1998, had grown to more than 40 percent of their revenue by 2000. More research is needed to determine why local charter schools experienced these budget changes during the period, but the high percentage of government support in 1998 may reflect the initial investment by policymakers in the District’s charter school program.

- **Expenditure patterns at local child and youth nonprofits changed marginally between 1998 and 2000.**

High spending on programs and services appears to be a long-standing approach in the child and youth service field in the D.C. region. In 1998 and 2000, local nonprofit providers spent roughly 83 percent of their budgets on programs. Local child and youth nonprofits also allocated very similar proportional amounts to fundraising and administration during this period. Charter schools were the only type of child and youth provider that experienced significant spending shifts from 1998 to 2000. In fact, local charter schools reduced the percentage allocated to program spending by roughly 23 percent, and relayed those funds into management and administration. As table 10 shows, proportional spending on administrative costs rose by more than 23 percent (or $368,000) at charter schools between 1998 and 2000. Part of this finding may relate to staff growth at local charter schools. At Options Public Charter School in the District, for example, percentage spending on management increased nearly four-fold during this period, from 5.5 percent in 1998 to 20.3 in 2000. In addition to charter schools, preschool and early childhood education providers, community-based health providers, and community recreation applied a higher percentage of their budgets to management in 2000 than in 1998. All other service providers spent slightly less on administrative expenses.

Shifts in the Fiscal Health of Child and Youth Nonprofits in the D.C. Region

Growing budgets and a slight shift toward fee-for-service revenue underscore changes in the broad financial structure of the local child and youth field from 1998 to 2000. But how did these changes affect the financial well-being of these groups? Did more or fewer groups lose money in 2000 than in 1998? Did their operating margins grow or shrink? How did their net assets change? The answers to these questions are complex, but the findings below suggest that, despite higher revenues and expenses, local providers, as a group, were struggling to hold their financial ground between 1998 and 2000.[4]

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[4] The two years of financial information discussed in this section of the report are not adjusted for economic inflation. However, data on the average annual Consumer Price Index from the U.S. Bureau of

- **The percentage of local child and youth nonprofits that lost money was higher in 2000 than in 1998.**

Despite the hefty growth of revenues and expenses between 1998 and 2000 in the local child and youth service field, many groups lost ground financially, at least with respect to the operating budgets. Of the 631 local providers in the panel, roughly one in four had expenses that exceeded revenue in 1998. In 2000, the percentage of local providers that lost money had grown to more than 30 percent.

Fiscal shortfalls became more prominent during this timeframe in several service fields, including scouting, youth sports, and other education providers that supply afterschool activities and tutoring and mentoring. In 1998, for example, 26 percent of scouting organizations and youth sports lost money. By 2000, this proportion had grown to 35 percent. Among groups that provide afterschool, tutoring, and mentoring programs, the percentage with budget deficits increased from 21 percent in 1998 to more than 30 percent in 2000. But mounting deficits were most clearly evident among local nonprofits that focus on crisis intervention and counseling—the proportion of these groups that lost money doubled from 17 to 34 percent between 1998 and 2000.

Some local child and youth providers suffered significant budget declines. One local D.C.-based nonprofit that focuses on teen pregnancy prevention and care saw its revenue drop from $865,000 in 1998 to $238,000 in 2000. While its expenses also dropped from $683,000 to $584,000 during this period, it ended 2000 with a budget deficit of $346,000. Part of the budget decline at this nonprofit relates to its loss of

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Labor shows that inflation rate in the D.C. region was relatively low from 1998 to 2000, and generally mirrored the inflation rate for the U.S. on the whole. This finding suggests that the purchasing power of each dollar of income in the child and youth sector was similar in 1998 and 2000. See http://www.bls.gov/cpi/ for more information.

charitable donations. This local provider received $377,000 in donor support in 1998. In 2000, it reported no charitable contributions to the IRS.

The child and youth service field in the D.C. region increasingly became a mix of budgetary “haves” and “have-nots” between 1998 and 2000. The operating margin for the typical—or median—local provider that turned a “profit” in 1998 was $32,400. By 2000, the difference between revenues and expenses for groups that at least broke even had grown to $37,500. In contrast, for local child and youth providers that lost money in 1998, the average budget deficit was $14,800. Among these fiscal losers in 2000, the average budget shortfall had grown to $22,140. It is clear, then, that financially successful providers were experiencing bigger fiscal gains in 2000, while struggling child and youth nonprofits in the region were losing ground financially.

- **By 2000, budgets had tightened at nearly half of all local child and youth nonprofits in the D.C. region.**

Roughly 50 percent of local providers saw their end-of-year operating margins (that is, revenues minus expenses) fall between 1998 and 2000, although the typical nonprofit in the region had a slightly higher operating balance ($762) in 2000 when compared with 1998 (table 11). This finding suggests that while the median local child and youth provider had a bit more wiggle room in their budgets—roughly $700 more in 2000—many groups felt their budgets tighten during this period.

Some types of providers saw deep declines in their operating margins. For example, the typical community-based health provider had a budget cushion in 2000 that was nearly $4,600 less than its cushion in 1998. Preschool and early childhood educational nonprofits also saw substantial differences in end of year budget surpluses. The median operating margin dropped by $2,900 from 1998 to 2000.

Similar to other fiscal measures, the change in operating margins from 1998 to 2000 was positive and significant at local charter schools. In fact, the typical budget cushion (revenues minus expenses) grew by more than $157,000 at charter schools in the District during this period. Nonprofits that focus on delinquency prevention, which, as a group, experienced budget problems in 2000, nevertheless improved their financial performance between 1998 and 2000. Taken together, these findings show that the fiscal circumstances of some types of providers in the D.C. region improved from 1998 to 2000, but that gains were not universal in the child and youth field.

- **Although operating margins at many local providers shrunk, net assets in the child and youth service field increased substantially between 1998 and 2000.**

Although many nonprofits lost money and experienced tightening budgets during the period, the child and youth field in the region, as a whole, saw a considerable increase in their net worth. At the end of 1998, the panel organizations that provide child and youth services held $999 million in net assets (total assets minus total liabilities). By 2000, the net worth of these providers had grown to $1.2 billion, an increase of nearly 20 percent for the child and youth service field as a whole. The majority of this growth related to charter schools and private K–12 institutions. Of the total growth of net assets among providers in the region, more than half (or $102 million) was attributable to charter schools and private schools. The Holton-Arms School in Bethesda, alone, saw its net assets increase by roughly $14 million during this period, from $46 million to $60 million. In the case of local private schools, not only did they have higher net assets than the other types of child and youth groups in the region in 1998, but they also saw these holdings increase in value at the highest rate in sector from 1998 to 2000.

Because so much of the growth in net assets is attributable to local private and charter schools, it is not surprising that the typical provider experienced a relatively small increase in net worth during this period, although more than 7 in 10 saw their assets grow during this period. Among the 623 panel groups in the study, the median growth in net assets equaled roughly $26,000 between 1998 and 2000 (table 12). The change was particularly small in some service fields. Preschool providers and local nonprofits that focus on early childhood education saw the change in total assets outpace their liabilities by roughly $7,000 during this period. These findings suggest that most providers saw their net assets increase from 1998 to 2000, but the growth was not uniform across the child and youth service field in the region.

DISCUSSION

Many nonprofits that serve children and youth in the D.C. region showed signs of fiscal stress in 2000, one year before the 9/11 attacks on the Pentagon and the World Trade Center that exacerbated the decline in the local economy and helped to create a growing set of regional social and economic challenges that linger today. Nearly one-third of all local child and youth nonprofits lost money in 2000, compared with about 25 percent in 1998, and many groups saw their budgets tighten during this period. Among communities in the region, some had child and youth sectors that were faring well financially, but others, particularly Prince George’s, Prince William, and Frederick counties, had providers that, on the whole, struggled to make ends meet in 2000. Over time, such circumstances can affect both the quantity and quality of services in these localities.

Other findings reveal a set of local providers that were on precarious financial footing by the end of 2000. Revenues increased substantially for many providers between 1998 and 2000, but expenses grew faster. Reliance on fee-for-service income was the norm in the child and youth service field in both years, but the data show that charitable contributions—not user fees—are the income source that relates most strongly to the good fiscal health of local providers.

The spending patterns, too, of local providers signal potential problems. Spending on programs and services was relatively high at most child and youth nonprofits in 2000, which may paint them in a favorable light with government and funders, but may also make these providers more financially vulnerable in the long run. Proportional spending on fundraising and administration, in contrast, was low in the child and youth service field and could highlight a lack of investment by nonprofits in their future capacity.

On a positive note, the net assets of local child and youth nonprofits grew by more than $200 million from 1998 to 2000, and the total net worth of these providers was roughly $1.2 billion as they entered 2001. Even here, though, there are potential warning signs, because much of the increase in net assets was in local private K–12 institutions and charter schools. Other types of child and youth nonprofits began 2001 with relatively little capital on which to draw as financial times became more difficult.

This analysis also highlights the significant differences in the fiscal health of nonprofit child and youth providers across communities in the D.C. region. While groups that serve children and youth in Manassas and Fairfax measured well financially in 2000, nonprofit providers in Loudoun, Arlington, Prince George's, Prince William, and Frederick counties faced serious fiscal challenges. The explanation for why some communities fare better than others is complex and likely relates to several local factors, including the needs of local children and their families, variation in public and private investment in child and youth services, and the ability of public schools to offset the demand for nonprofit services.

In the end, the disparities in the fiscal health of child and youth nonprofits across jurisdictions in the region highlight the need for public action, although the applicability of policy choices varies by type of community. For jurisdictions with financially weak child and youth service fields, for example, local officials may need to carefully review the structural relationships among local child welfare agencies and front-line nonprofit providers to determine if regulatory or contractual changes are needed. For communities that have fiscally strong providers, local officials might consider a strategy that monitors the financial health of child and youth nonprofits and acts quickly with infusions of funding or regulatory changes if the fiscal viability of their local providers begins to decline. Indeed, localities with financially strong child and youth sectors cannot be complacent as the social and economic environment in the region continues to change.

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TABLES

Table 1. Distribution of Local Nonprofits Serving Children and Youth in the Washington, D.C., Metro Area, by Type of Provider, 2004

Type of provider	N	%
Education		
Charter schools	32	2.9
Preschool, early childhood education	64	5.7
Other primary and secondary schools	139	12.5
Other education, including tutoring	57	5.1
Subtotal: Education	292	23.3
Youth development		
Community facilities/youth centers	46	4.1
Scouting, youth sports	260	23.3
Subtotal: Youth Development	306	27.5
Social welfare		
Adoption, foster care, abuse and neglect	10	0.9
Child care	101	9.1
Community physical or mental health	76	6.8
Crisis intervention, counseling	85	7.6
Delinquency prevention	19	1.7
Multiservice providers	225	20.2
Subtotal: Social Welfare	516	46.3
All local child and youth nonprofits	1,114	100.0

Source: D.C. Regional Nonprofit Database, The Urban Institute

Table 2. Financial Resources by Type of Local Nonprofit Serving Children and Youth in the D.C. Area, 2000

		Revenues		Expenses		Assets	
Type of provider	N	Average	Median	Average	Median	Average	Median
Education							
Charter schools	22	2,310	1,297	2,138	1,133	1,471	448
Preschool, early childhood education	64	987	134	986	131	365	63
Other primary and secondary schools	131	4,096	1,550	3,371	1,411	9,249	1,571
Other education, including tutoring	42	994	134	819	127	1,564	54
Youth development							
Community facilities/youth centers	32	816	186	771	206	1,025	246
Scouting, youth sports	191	437	116	377	105	424	44
Social welfare							
Adoption, foster care, abuse and neglect	8	795	457	744	435	481	137
Child care	99	750	535	737	541	271	129
Community physical or mental health	65	1,619	177	1,519	176	973	147
Crisis intervention, counseling	54	992	214	935	208	633	104
Delinquency prevention	15	535	321	496	373	284	167
Multiservice providers	159	2,574	690	2,378	630	2,450	360
All local child and youth nonprofits	882	1,654	322	1,470	303	2,235	144
All nonprofits	7,636	4,336	276	3,788	246	8,547	228

Source: D.C. Regional Nonprofit Database, The Urban Institute

Notes: Dollars in thousands.

Financial amounts in this table are limited to organizations that filed Form 990 with the IRS in 2000. Of the 1,114 local child and youth providers in the study, 79.2 percent (or 882 nonprofits) filed Form 990.

Table 3. Sources of Revenue in 2000 by Type of Child and Youth Nonprofit in the Washington, D.C., Metropolitan Area

		Average percentage			
Type of provider	N	Donations	Government	Client fees	Other
Education					
Charter schools	22	12	43	44	1
Preschool, early childhood education	45	5	3	81	11
Other primary and secondary schools	125	16	2	75	7
Other education, including tutoring	25	35	22	37	7
Youth development					
Community facilities/youth centers	27	35	9	32	25
Scouting, youth sports	119	24	2	39	34
Social welfare					
Adoption, foster care, abuse/neglect	8	13	10	76	1
Child care	91	6	9	79	5
Community physical or mental health	53	43	12	37	9
Crisis intervention, counseling	43	42	25	31	2
Delinquency prevention	12	44	39	13	4
Multiservice providers	137	41	21	31	7
All local child and youth nonprofits	707	26	12	51	12
All nonprofits	6,125	46	11	27	16

Source: D.C. Regional Nonprofit Database, The Urban Institute

Notes: The distribution of revenue sources is limited to nonprofits that filed the long form version of Form 990 with the IRS in 2000. Of the 1,114 local child and youth providers in the study, 65 percent (or 707 nonprofits) filed the long version of Form 990 in 2000.

Table 4. Distribution of Expenses in 2000 by Type of Child and Youth Nonprofit in the Washington, D.C., Metropolitan Area

		Average percentage			
Type of provider	N	Program expenses	Administrative expenses	Fundraising expenses	Other
Education					
Charter schools	22	76	24	<1	0
Preschool, early childhood education	45	85	14	1	0
Other primary and secondary schools	125	81	17	2	0
Other education, including tutoring	25	82	15	3	0
Youth development					
Community facilities/youth centers	27	75	21	3	0
Scouting, youth sports	119	88	10	2	1
Social welfare					
Adoption, foster care, abuse/neglect	8	83	15	2	0
Child care	91	86	13	1	0
Community physical or mental health	53	80	16	3	0
Crisis intervention, counseling	43	80	15	5	0
Delinquency prevention	12	85	12	2	0
Multiservice providers	137	85	12	2	0
All local child and youth nonprofits	707	83	14	2	0
All nonprofits	6,082	79	17	3	0

Source: D.C. Regional Nonprofit Database, The Urban Institute

Notes: The distribution of expense types is limited to nonprofits that filed the long form version of Form 990 with the IRS in 2000. Of the 1,114 local child and youth providers in the study, 65 percent (or 707 nonprofits) filed the long version of Form 990 in 2000.

Table 5. Average Administrative Costs of Child and Youth Nonprofits in 2000 by Type of Provider in the Washington, D.C., Metropolitan Area

Type of provider	N	Average amount spent	Percent of total expenses	Percentage of nonprofits spending 30% or more on administrative costs
Education				
Charter schools	22	530	24.2	27.3
Preschool, early childhood education	45	199	14.2	11.1
Other primary and secondary schools	125	605	17.0	9.6
Other education, including tutoring	25	139	15.0	20.0
Youth development				
Community facilities/youth centers	28	181	21.4	21.4
Scouting, youth sports	128	57	10.0	3.1
Social welfare				
Adoption, foster care, abuse/neglect	8	103	14.9	12.5
Child care	91	110	12.7	5.5
Community physical or mental health	53	298	16.5	7.5
Crisis intervention, counseling	43	103	15.2	9.3
Delinquency prevention	12	56	12.4	0.0
Multiservice providers	137	324	12.2	5.1
All local child and youth nonprofits	707	265	13.9	8.3
All nonprofits	6,082	580	16.9	15.4

Source: D.C. Regional Nonprofit Database, The Urban Institute
Notes: Dollars in thousands.
Adminstrative cost calculations are limited to nonprofits that filed the long form version of Form 990 with the IRS in 2000. Of the 1,114 local child and youth providers in the study, 65 percent (or 707 nonprofits) filed the long version of Form 990 in 2000.

Table 6. Operating Margins in 2000 of Child and Youth Serving Nonprofits by Type of Provider in the Washington, D.C., Metropolitan Area

Type of provider	N	$ margin Mean	$ margin Median	Margin as % of revenue	% of nonprofits with negative balance
Education					
Charter schools	22	171	49	6.2	36.4
Preschool, early childhood education	64	2	5	3.9	31.3
Other primary and secondary schools	131	725	142	8.7	19.8
Other education, including tutoring	42	175	12	7.0	23.8
Youth development					
Community facilities/youth centers	32	72	2	2.2	40.6
Scouting, youth sports	191	59	5	4.3	31.9
Social welfare					
Adoption, foster care, abuse/neglect	8	51	52	8.3	25.0
Child care	99	13	7	2.6	36.4
Community physical or mental health	65	101	5	4.7	35.4
Crisis intervention, counseling	54	40	4	3.2	33.3
Delinquency prevention	15	36	6	3.6	40.0
Multiservice providers	159	196	21	4.7	29.6
All local child and youth nonprofits	882	184	9	4.5	30.6
All nonprofits	7,606	560	11	5.7	33.3

Source: D.C. Regional Nonprofit Database, The Urban Institute

Notes: Dollars in thousands.

Financial amounts in this table are limited to organizations that filed Form 990 with the IRS in 2000. Of the 1,114 local child and youth providers in the study, 79.2 percent (or 882 nonprofits) filed Form 990.

Table 7. Net Assets in 2000 of Child and Youth Nonprofits in the D.C. Metro Area

Type of provider	N	Net assets: Mean	Net assets: Median	% of nonprofits with positive net assets
Education				
Charter schools	22	465	250	86.4
Preschool, early childhood education	64	200	39	95.3
Other primary and secondary schools	131	6,362	919	93.1
Other education, including tutoring	42	1,361	46	100.0
Youth development				
Community facilities/youth centers	32	829	185	96.7
Scouting, youth sports	191	320	38	93.7
Social welfare				
Adoption, foster care, abuse/neglect	8	188	114	75.0
Child care	99	166	90	85.9
Community physical or mental health	65	522	111	93.7
Crisis intervention, counseling	54	440	76	94.5
Delinquency prevention	15	150	79	71.4
Multiservice providers	159	1,399	169	93.1
All local child and youth nonprofits	876	1,482	95	92.5
All nonprofits	7596	6,159	134	91.1

Source: D.C. Regional Nonprofit Database, The Urban Institute
Notes: Dollars in thousands.
Net assets equals total assets minus total liabilities.
Financial amounts in this table are limited to organizations that filed Form 990 with the IRS in 2000. Of the 1,114 local child and youth providers in the study, 79.2 percent (or 882 nonprofits) filed Form 990.

Table 8. Rank Order of Operating Margins and Net Assets in 2000 of Child and Youth Nonprofits, by Jurisdiction in the Washington, D.C., Metropolitan Area

			Operating margins			Net assets			
Relative			Median amount	Margin as % of revenue	% of nonprofits with positive margins	Median amount	% of nonprofits with positive net assets	Composite measure	
Fiscal performance	Jurisdiction	N	Rank	Rank	Rank	Rank	Rank	Score	Rank
Thriving	Manassas[a]	11	1	1	1	6	2	11	1
	Fairfax[b]	158	4	3	4	3	3	17	2
Striving	Montgomery	194	2	5	2	4	6	19	3
	DC	259	3	4	6	1	7	21	4
	Falls Church	11	5	11	3	5	1	25	5
	Alexandria	27	5	6	7	2	11	31	6
Surviving	Loudoun	29	7	2	10	11	8	38	7
	Arlington	32	8	8	9	9	5	39	8
	Prince George's	91	8	7	8	8	10	41	9
	Prince William	24	11	8	11	7	4	41	9
	Frederick	39	8	10	5	10	9	42	11

Source: D.C. Regional Nonprofit Database, The Urban Institute
Notes: Dollars in thousands
Rankings are based on financial information from nonprofits that filed Form 990 with the IRS in 2000.
a. Manassas includes Manassas City and Manassas Park.
b. Fairfax includes Fairfax County and Fairfax City.

Table 9. Change in Finances by Type of Child and Youth Nonprofit in the Washington, D.C., Metro Area, 1998-2000

		Revenue change		Expense change		Total asset change	
Type of provider	N	Average	Median	Average	Median	Average	Median
Education							
Charter schools	6	1,180	1,349	1,027	1,175	460	386
Preschool, early childhood education	45	136	14	179	18	-26	9
Other primary and secondary schools	108	821	225	671	260	2,298	418
Other education, including tutoring	23	-40	51	-150	24	138	45
Youth development							
Community facilities/youth centers	20	146	44	205	79	242	14
Scouting, youth sports	125	139	17	89	27	164	12
Social welfare							
Adoption, foster care, abuse and neglect	7	10	79	17	103	164	91
Child care	78	76	48	99	51	61	21
Community physical or mental health	48	387	61	304	52	414	24
Crisis intervention, counseling	42	240	23	241	41	186	24
Delinquency prevention	10	163	157	106	120	119	60
Multiservice providers	119	617	140	491	101	628	54
All local child and youth nonprofits	631	366	53	302	58	636	39
All nonprofits	5,458	825	36	804	42	1,974	40

Source: D.C. Regional Nonprofit Database, 1998 National Nonprofit Organizational Database, The Urban Institute
Notes: Dollars in thousands.
Financial amounts are limited to organizations that filed Form 990 with the IRS in 1998 and 2000.

Table 10. Change in Adminstrative Costs by Type of Child and Youth Nonprofit in the Washington, D.C., Metropolitan Area, 1998-2000

		Administrative costs Average change	
Type of provider	N	$	%
Education			
Charter schools	6	368	23.4
Preschool, early childhood education	32	259	2.8
Other primary and secondary schools	105	670	-1.2
Other education, including tutoring	17	165	-1.2
Youth development			
Community facilities/youth centers	20	197	1.9
Scouting, youth sports	88	56	-1.6
Social welfare			
Adoption, foster care, abuse and neglect	7	110	-3.1
Child care	75	85	-0.4
Community physical or mental health	43	360	2.1
Crisis intervention, counseling	33	124	-1.2
Delinquency prevention	9	67	-0.2
Multiservice providers	104	383	-0.2
All local child and youth nonprofits	539	297	-0.1
All nonprofits	4,707	675	-0.6

Source: D.C. Regional Nonprofit Database, 1998 National Nonprofit Organizational Database, The Urban Institute
Note: Administrative cost calculations are limited to nonprofits that filed the long version of Form 990 with the IRS in 1998 and 2000.

Table 11. Change in Operating Margins by Type of Child and Youth Nonprofit in the Washington, D.C., Metropolitan Area, 1998-2000

Type of provider	N	Median operating margin change ($)	% of organizations: smaller margin in 2000 than 1998
Education			
Charter schools	6	157,445	16.7
Preschool, early childhood education	45	-2,941	55.6
Other primary and secondary schools	108	4,907	49.1
Other education, including tutoring	23	15,101	39.1
Youth development			
Community facilities/youth centers	20	-1,083	50.0
Scouting, youth sports	125	-1,615	44.8
Social welfare			
Adoption, foster care, abuse and neglect	7	17,778	57.1
Child care	78	-1,994	52.6
Community physical or mental health	48	-4,571	56.3
Crisis intervention, counseling	42	1,296	61.9
Delinquency prevention	10	38,238	30.0
Multiservice providers	119	14,177	46.2
All local child and youth nonprofits	631	762	49.1
All nonprofits	5,456	-521	51.1

Source: D.C. Regional Nonprofit Database, 1998 National Nonprofit Organizational Database, The Urban Institute

Note: Operating margin calculations in this table are limited to nonprofits that filed Form 990 with the IRS in 1998 and 2000.

Table 12. Change in Net Assets by Type of Child-Serving Nonprofit in the Washington, D.C., Metropolitan Area, 1998-2000

Type of provider	N	Median change ($)	% of organizations: net assets increased from 1998 to 2000
Education			
Charter schools	6	290	100.0
Preschool, early childhood education	43	7	67.4
Other primary and secondary schools	108	212	82.4
Other education, including tutoring	23	47	73.9
Youth development			
Community facilities/youth centers	20	15	60.0
Scouting, youth sports	123	12	71.5
Social welfare			
Adoption, foster care, abuse and neglect	7	34	42.9
Child care	77	18	75.3
Community physical or mental health	48	16	68.8
Crisis intervention, counseling	41	22	61.0
Delinquency prevention	10	55	70.0
Multiservice providers	117	43	64.1
All local child and youth nonprofits	623	26	70.9
All nonprofits	5,415	31	68.1

Source: D.C. Regional Nonprofit Database, 1998 National Nonprofit Organizational Database, The Urban Institute

Notes: Dollars in thousands.

Net assets equals total assets minus total liabilities.

Net asset calculations in this table are limited to nonprofit organizations that filed Form 990 with the IRS in 1998 and 2000.

Appendix A: Detailed Methodology

The primary data source of the study is the National Nonprofit Organizational Database (NNOD), which is a multiyear data file produced by the National Center for Charitable Statistics (NCCS) at the Urban Institute. The NNOD contains roughly 650,000 observations of public charities that filed Form 990 with the IRS from 1998 to 2000. It has detailed financial and program information that is missing from other nonprofit files.

This study examines nonprofits that filed in fiscal year 2000, which was latest and most complete set of records available in the NNOD when this study's dataset was constructed during the fall of 2003. The initial step to construct the dataset was to extract information from the NNOD about groups that filed in fiscal year 2000 and were located in the D.C. region. This process revealed 7,628 nonprofits from the NNOD that are sited in the D.C. area. But because nonprofits with less than $25,000 in gross receipts and religious congregations are not required to file Forms 990, the NNOD underrepresents small organizations and religious groups (Smith 1997). To address this limitation of the NNOD, several lists were collected from foundations and grantmakers in the region. The external lists were verified and merged with the NNOD extract, a process that uncovered 509 additional nonprofits in the region. Combining the NNOD extract and external directories created a final dataset—the D.C. Regional Nonprofit Database—that includes information on 8,137 nonprofit organizations. Among these groups, 1,114 are locally-oriented nonprofits that primarily focus their programs and activities on children and youth in the D.C. metro region.

The study explores two important concepts in nonprofit research: the financial structure and fiscal health of child- and youth-related nonprofit organizations. To examine the financial structure of these groups in the D.C. region, the report calculates the means (arithmetic averages) and medians of their total revenues, expenses, and assets. The study also compares specific types of revenue sources and expenses. Revenue sources include public support from donations and contributions, government grants, client fees, and other sources of income, such as membership dues and sales of goods and inventory. Expenses were divided into funds spent on program services, management, fundraising, and other items, such as payments to affiliates.

The report assesses the fiscal health of child and youth nonprofits in the D.C. metro area with two measures: operating margin and net assets. An operating margin is the difference between total revenues and total expenses in the study year. Net assets are the difference between total assets and total liabilities.

The study examines the financial structure and fiscal well-being of local child and youth nonprofits from multiple angles, including how the finances of these organizations vary by type of services and locality, and how they have changed since 1998. The study examines 12 specific types of child and youth nonprofit organizations in three broad programmatic areas, including education, youth development, and social welfare. More detail on this service typology is provided in appendix B. Jurisdictions in the study are based on the geographic definition of the D.C. metro region from the Metropolitan Council of Governments. These jurisdictions includes the District; Montgomery, Prince

George’s, and Frederick counties in Maryland; Arlington, Fairfax, Loudoun, and Prince William counties in Virginia; and the independent cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park in Virginia. To ensure robustness and statistical validity of the analysis, the study combines Fairfax County and Fairfax City data, as well as Manassas and Manassas Park data.

The study also uses a number of variables to predict which groups are faring financially better or worse in the region. Such variables include the age of an organization (which is calculated as the number of years since it received tax-exempt status from the IRS), location, service type, and size (which is measured as total expenses).

Appendix B: **Defining Nonprofits that Serve Children and Youth in the D.C. Region**
The units of analysis in the study are nonprofits in the Washington, D.C., metropolitan area that serve children and youth. The study defines children and youth as newborns to those who are 17 years of age. More specifically, children are defined as those age 0 to 4. Youth are those aged 5 to 17. This definition allows for an analysis of a wide array of services for children in the region.

Nonprofits with a primary purpose to serve child and youth were identified through the National Taxonomy of Exempt Entities (NTEE), a hierarchical classification system that categorizes organizations according to their stated purpose on the Form 990. Nonprofits that supply direct services and programs to children were located through the Nonprofit Program Classification (NPC), developed by NCCS. NPC is an effective method to identify youth programs offered by nonprofits whose primary purpose is not child or youth related. An example includes a painting and drawing program for children at a local arts nonprofit. NTEE and NPC codes are assigned to all observations in the National Nonprofit Organizational Database and were reviewed to reduce classification errors and delete duplicate records. The NTEE codes were manually applied to observations from the external data sources. The NTEE codes found more than 1,100 nonprofits with a primary child- or youth-related purpose. The NPC codes revealed an additional 211 local groups that provide direct programs for children in the region.

The study categorizes child and youth nonprofits along three broad dimensions: education, youth development and recreation, and social welfare. The education dimension includes pre-kindergarten and Head Start providers; primary and secondary private schools; charter schools in the District; nonprofit libraries, and other education providers, such as groups that focus on tutoring and afterschool activities. Youth development and recreation includes community facilities, youth centers, such as the Boys and Girls Clubs, scouting troops, and youth sports.

The social welfare dimension consists of six types of providers, including adoption, foster care, and groups that focus on the prevention of abuse and neglect; child care; community physical and mental health organizations; crisis intervention and counseling; delinquency prevention; and multiservice organizations, such as Catholic Charities and the Jewish Social Service Agency. Although multiservice nonprofits may supply services to community residents of all ages, their crucial role in the delivery of services to children and youth in the D.C. region warrant their inclusion in the study.

Some types of nonprofits that may provide programs for children and youth were excluded from this analysis. Their exclusion was based on two factors. First, large organizations, such as local hospitals, were excluded, because the extent of their program activity directed toward children could not be ascertained. Second, large nonprofits, such as local universities that provide some youth development and mentoring programs, were excluded because the majority of their services were not targeted specifically to children and youth. In general, only direct providers are included in the study. That is, nonprofits that provide financial or management support for organizations that serve children and youth in the region were excluded from the study.