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Bear Market for Charities

A Harlem Education Project That Won Big Corporate Backing Now Faces Cutbacks as Donors Close Their Wallets

By [MIKE SPECTOR](#)

NEW YORK -- Geoffrey Canada has spent decades building a strategy for saving poor children from crime-ridden streets and crumbling public schools.

His "Harlem Children's Zone" now serves thousands of kids, some of whom are showing impressive test scores. He has attracted the attention of the new White House because of his charity's model: Instead of tackling problems here and there, the program envelops an entire neighborhood, with services ranging from parenting classes to health clinics to charter schools.

But Wall Street's meltdown and money manager Bernard Madoff's alleged financial fraud threaten the donor base that bankrolls Mr. Canada's work. Facing declining revenues, he's had to lay off staff and cancel plans to expand. He says he doesn't yet "have a Plan B" for replacing his Wall Street support, which had reached upwards of \$15 million annually.

Mr. Canada's difficulties show how dependent nonprofits can become on certain steady donors, and how their plans can be derailed when those revenues dry up. It underscores the challenges facing nonprofits, which grew and proliferated amid the bull-market earlier this decade.

Today, the U.S. boasts more than one million nonprofits, up from about 774,000 ten years ago. Their biggest donations come from corporations, foundations and the ultra-wealthy. Many have been hit hard by the deepening recession. A drop in charitable contributions could shutter as many as 100,000 nonprofits over the next year, says Paul Light, a professor at New York University's Wagner School of Public Service.

Mr. Canada, a 57-year-old social worker, calls his strategy the "conveyor belt," because it aims to give children an intensive experience in a succession of programs until they graduate from college. Children in pre-kindergarten are taught foreign languages, for instance. From there, children enter Mr. Canada's charter schools with longer school days and a calendar lasting until the first week of August.

The approach is starting to deliver results. Last year, nearly all the third-graders in Mr. Canada's charter schools scored

at or above grade-level in math, better than recent citywide averages. Eighth-graders outperformed the average New York student in math, according to New York state data.

"The math thing is just so far above anything I've ever seen," says Roland Fryer, a Harvard economist who heads a new education lab. "The real hard work is to figure out why it's working and whether that kind of thing can be exported so we can help more kids."

President Barack Obama's advisers met with Mr. Canada recently to learn more about his approach. Mr. Obama said during the campaign that he wants to create "promise neighborhoods" modeled on Mr. Canada's charity in 20 cities across the U.S. Today, that initiative remains part of the White House's publicized agenda.

But a big part of Mr. Canada's revenue stream is now drying up. He courted large financial institutions, Wall Street executives and other power brokers to finance his project, which currently serves 8,000 children across 97 blocks of Central Harlem. His budget has grown at least 15% annually in eight of the past nine years, to \$68 million from just under \$12 million. His charity's endowment stands at around \$94 million.

The donor-list that fueled that growth resembles a who's who of Wall Street's collapse and transformation: Among them are the bankrupt Lehman Brothers Holdings Inc. and its foundation; the just-sold Merrill Lynch & Co.; Citigroup Inc.; and Morgan Stanley.

What's more, Mr. Canada just lost some \$2.7 million from his endowment after an investment with J. Ezra Merkin's Ariel Fund Ltd., according to a person familiar with the matter. The fund invested with Mr. Madoff, the alleged perpetrator of a multi-billion-dollar Ponzi scheme.

All told, Mr. Canada says between 20% and 30% of his annual revenue has flowed from Wall Street in recent years. That's before counting big foundation donors that have suffered. The Picower Foundation, a Florida-based charity that gave Mr. Canada \$1 million a year, just closed its doors because its endowment was managed by Mr. Madoff.

Revenue in the current fiscal year -- which began in July before the worst of the financial turmoil -- could fall 7%, or \$5 million, Mr. Canada says. The outlook for the next fiscal year is uncertain.

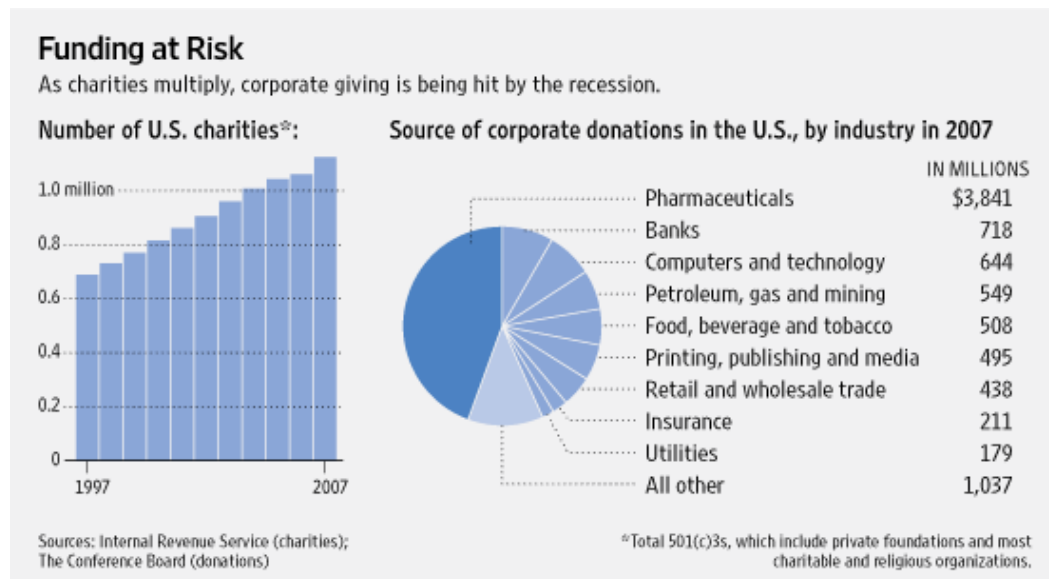
"When I found out part of our endowment was invested with Madoff, you start thinking, 'Jesus, is anything safe?'" Mr. Canada says.

Mr. Canada settled on a career in social work when he was about nine, living in a rodent-infested apartment with his mother and three brothers in the South Bronx during the 1960s. His father left when he was four years old. He says he spent most of his childhood fighting in gangs. He also says he stared down guns.

One of the "saddest moments of my life," Mr. Canada says, was when his mother told him Superman didn't exist. "I really believed Superman," Mr. Canada said, recalling he thought it would take a superhero to clean up his neighborhood. "And then I suddenly realized ... there's no one coming to rescue us." He says he vowed to help poor children one day.

Despite brushes with violence, Mr. Canada was a bookworm who did well in school. He got a scholarship to Bowdoin College in Maine, then earned a master's in education from Harvard.

After a teaching stint, Mr. Canada returned to New York in 1983 to work for a truancy-prevention nonprofit. A recent black-belt in tae kwon do, he taught martial arts to many of the agency's children, but says he still lost several to gun violence.



By 1990, Mr. Canada was the agency's president and opened a Harlem community center to provide after-school programs. He started receiving grants from the Robin Hood Foundation, the New York antipoverty charity founded by hedge-fund manager Paul Tudor Jones II that boasted several Wall Street executives and other big-shots on its board.

In 1994, David Saltzman, Robin Hood's executive director, told Mr. Canada about a Bowdoin alumnus who had just joined the foundation's board: Stan Druckenmiller, the billionaire who had worked for hedge-fund king George Soros.

Mr. Canada was already thinking about a new model called the "Harlem Children's Zone Project." He was frustrated that many of his children remained trapped amid crime and failing public schools. He wanted to blanket them with services, while educating parents. He also wanted to open his own schools.

Mr. Canada discussed the idea with Mr. Druckenmiller. He emphasized a long-term plan with measurable results to show potential donors. "He knew how to focus on cost, he could lead, he had vision," Mr. Druckenmiller recalls. The businessman also was struck by how children looked at Mr. Canada. "I've seen it in businesses. I knew very quickly this guy could make a difference."

In 1997, the project began serving 24 blocks of Harlem. Mr. Druckenmiller's fund-raising efforts opened Wall Street's wallets. Mr. Soros, the hedge-fund guru, became an early donor.

Mr. Druckenmiller began putting Mr. Canada in front of deep pockets at a spruced-up annual dinner. Mr. Druckenmiller also became Mr. Canada's largest benefactor, donating "well north" of \$100 million to date, Mr. Canada says. Mr. Druckenmiller declined to comment on his level of support.

Wall Street executives visited Harlem to see Mr. Canada's work and started writing checks. As the years went on, donors included former Lehman CEO Richard Fuld, former American International Group Inc. CEO Maurice "Hank" Greenberg, and Morgan Stanley CEO John Mack. Recently ousted Morgan Stanley co-president Zoe Cruz also gave money, as did Home Depot backer Kenneth Langone.

In 2002, the project changed its name to Harlem Children's Zone Inc. With Mr. Canada its president and Mr. Druckenmiller its chair, the charity opened the Promise Academy charter school in 2004, and a second charter school in 2005. Those moves realized a more complete vision of Mr. Canada's "conveyor belt."

Today, the conveyor belt starts before children are even born with "Baby College," a nine-week Saturday morning program that teaches expectant parents essential skills like reading to children, alternatives to physical abuse and the importance of prenatal care.

Deshana Baker, an 18-year-old expectant mother who lives with her boyfriend, brother and grandmother in a small Harlem apartment, sat in a public-school cafeteria after one recent Saturday-morning class. She expressed surprise that her instructor disapproved of "plucking" or other gentle taps to discipline a child. "A little spanking, to me that was normal," she said. "They make a big deal out of something you were used to growing up."

Her boyfriend, Marcus Ward, 20, draws stares as the only father in their class of roughly a dozen young expectant mothers. Mr. Ward now constantly reminds Ms. Baker to sing to their child in the womb. "It's amazing how rapidly the brain develops," he said.

After Baby College, parents whose children have won limited slots at Mr. Canada's charter schools continue instruction in Saturday classes. Meanwhile, their kids attend "Harlem Gems," the agency's pre-kindergarten. After that, they move on to charter schools.

A bevy of other programs -- psychological and financial counseling for parents, health clinics and after-school arts, computer and karate classes -- supports their path. Harlem Children's Zone follows children all the way through college.

In September, Lehman Brothers' bankruptcy shocked Mr. Canada and made him wonder whether Harlem Children's Zone itself might be endangered. Lehman had been a big supporter and now the U.S. was headed toward the worst financial crisis since the Great Depression.

Mr. Canada had weathered the tech-bubble burst, asking his board to step up. But now everyone, especially his biggest backers, faced losses. "I couldn't go to the board" and just ask for more money, Mr. Canada says. "I began to wonder how many of our children we would end up losing."

On Oct. 23 at about 7:30 a.m., Harlem Children's Zone's board, along with senior managers, gathered in the midtown Manhattan offices of Mr. Druckenmiller's Duquesne Capital Management LLC.

Mr. Druckenmiller opened the meeting with an overview of the dire economy. His conclusion: The recession would last at least two years and the board needed to approve a 10% staff cut to preserve the zone project's current services.

"If you continue to spend like there was no problem out there and Armageddon hits, you could ... be in a fiscal situation sometime in 2010 where the whole enchilada was at risk," Mr. Druckenmiller said, recalling the meeting.

Mr. Canada knew something needed to be done, but he anguished over the prospect of letting staff go. "In communities like Harlem, laying off people in the midst of this recession, it literally means they're not going to be able to get another job," he says. "They'll end up being our clients, one way or another."

The board, with Mr. Canada's support, unanimously approved cutting about 140 employees, or 10% of the staff. In addition, Mr. Canada had to shelve plans to add another 1,000 children to the zone in the months ahead. All programs would be protected, but many with reduced staff.

Soon after, Mr. Canada met with his managers and program directors on the sixth floor of Promise Academy, the agency's Harlem headquarters, and asked for a list of cuts. Some wondered aloud about the organization's future. "The mood was very solemn," Mr. Canada recalls. "A number of our long-serving managers were visibly upset."

Mr. Canada hated the cuts but told program directors they were needed. He emphasized it was the "best-case scenario" and that he couldn't rule out another 10% cut in later months.

In a letter to staff, Mr. Canada announced the layoffs. The move marked "one of the saddest duties" he's had to perform

but there was "no other way," he wrote.

On a Friday afternoon in November, supervisors pulled Amanda Mickens, a 26-year-old assistant teacher for the Harlem Gems pre-kindergarten program, out of class. Tears in their eyes, they handed her a paycheck and Mr. Canada's letter, she says.

"I was pretty much speechless," said Ms. Mickens, who says she made about \$36,000 a year crafting lesson plans and aiding other teachers. She still works for the charity part-time on Saturdays, and landed a new job with an after-school program in the Bronx. Still, the layoff left her "a little heart-broken" because she believes strongly in Harlem Children's Zone's mission.

If the recession significantly worsens, Mr. Canada says he might have to start cutting the top of his conveyor belt -- services for middle-school and high-school students, and those for former clients attending college. Other non-core programs, including a community center, summer camp and truancy-prevention for Harlem residents would also face uncertain futures.

Mr. Canada says he's committed to broadening his fund-raising base and keeping those programs. For now, Mr. Druckenmiller has put up more money so Mr. Canada can avoid further cuts. Despite recent setbacks, he continues to preach his conveyor-belt approach across the country. San Francisco and Rochester, N.Y., have started programs with mixed results and other cities are mulling their own.

Mr. Canada's central argument for investing in his model is the same kind of business-pitch that attracted Mr. Druckenmiller and his Wall Street allies in the first place: Spending \$3,500 annually to keep a poor child out of jail trumps the \$50,000 Americans would spend each year to keep the same kid behind bars.

"We know in these poor neighborhoods, 30% to 50% of the males end up in jail ... and the question is, 'Why?'" Mr. Canada says. "We need a movement in America... We're saying let's intervene early, pay the money upfront and not have to pay the money on the back end. We think there's a positive net benefit for society."

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