

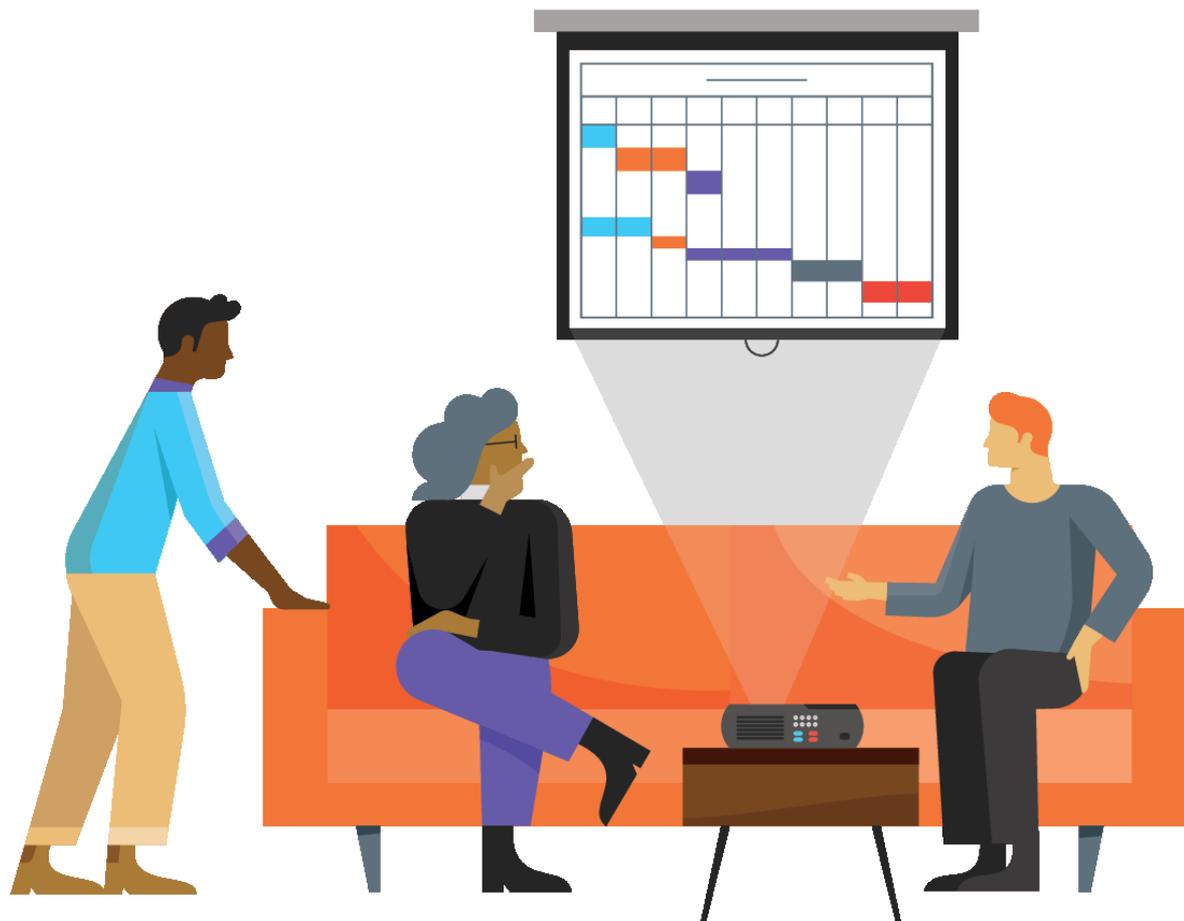
Alternatives to Biased Financial Analysis

Presented for Chief Executives for Corporate Purpose (CECP)

Presented by

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Associate Director, Advisory

January 2020



Nonprofit Finance Fund: Where money meets mission

NFF envisions a world where capital and expertise come together to create a more just and vibrant society

We unlock the potential of mission-driven organizations through

- **Tailored investments**
- **Strategic advice**
- **Accessible insights**

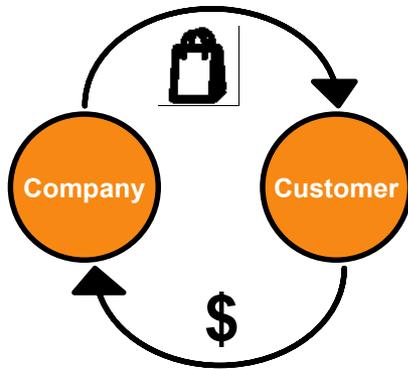
Guided by our Core Values →



“Rules” of For-Profit Finance

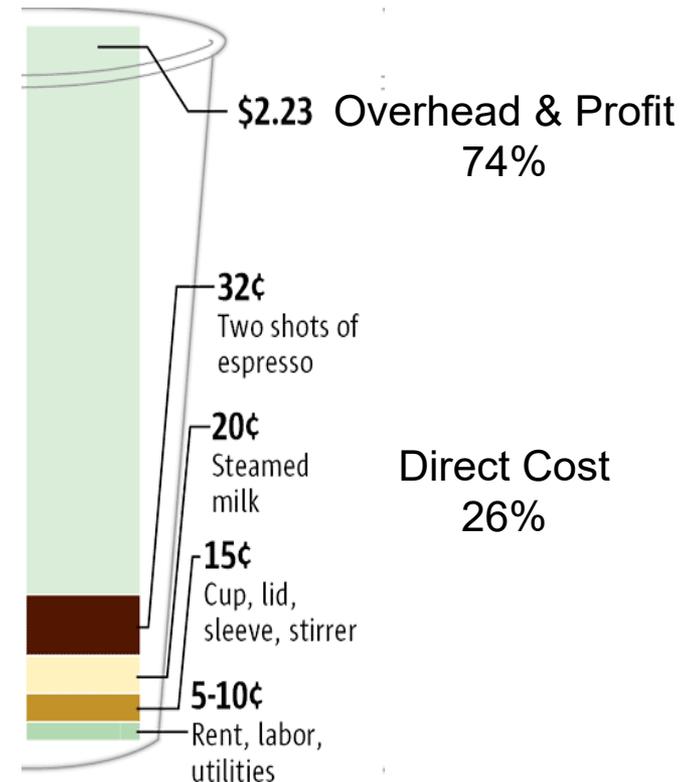
In the **for-profit** world:

- Customer buys the product



- Management decides how the money is spent
- Price includes the full cost of doing business, plus a profit
- Overhead and profit are seen as necessary

12-Ounce Coffee = \$3.00



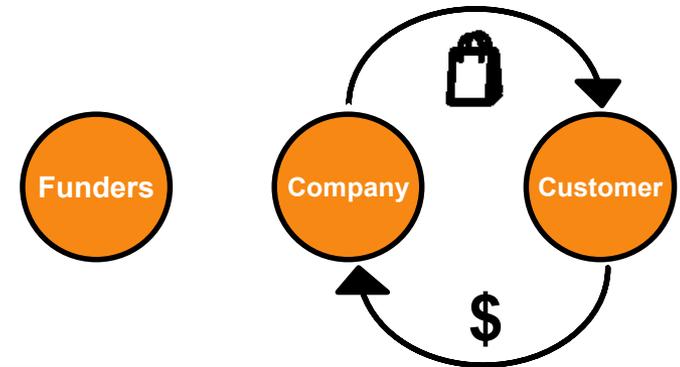
A. RAYMOND/THE SEATTLE TIMES

Source: 2008, Matt Milletto, VP of the American Barista & Coffee School

“Rules” of Nonprofit Finance

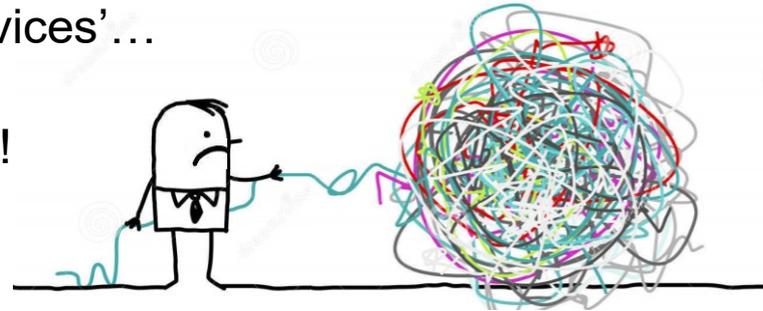
Multi-payor system

- Client often does not pay
- Third parties pay



Insufficient and Restricted Funding

- Donations must go to ‘direct services’ ...
- ...and not to ‘overhead’
- Restrictions complicate finances!



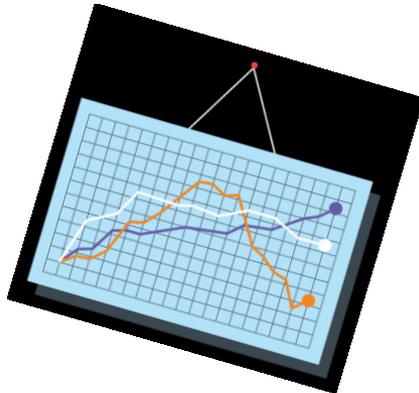
Money-losing business

- We fill social needs with low/no commercial returns (we pick the hardest work!)
- Profits are seen as unnecessary

Harmful Nonprofit Myths

Myth that Nonprofit = No Profits

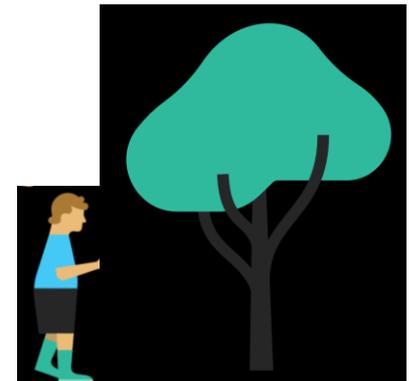
- Tax Status vs. Business Model
- Surpluses are necessary



Myth that the 'Overhead Ratio' measures our value

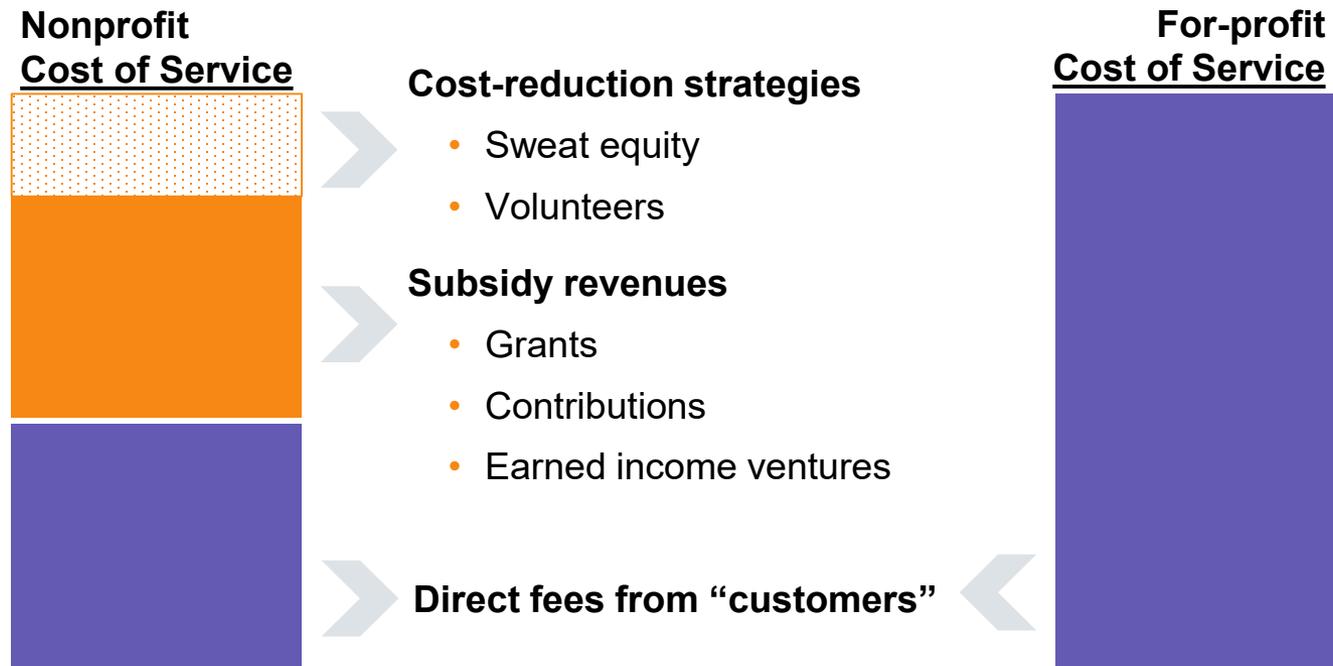
Myth that nonprofits can be 'self-sufficient'

- They will always need 3rd party pay



Myth of Self-Sufficiency: Nonprofit Business Model Truth

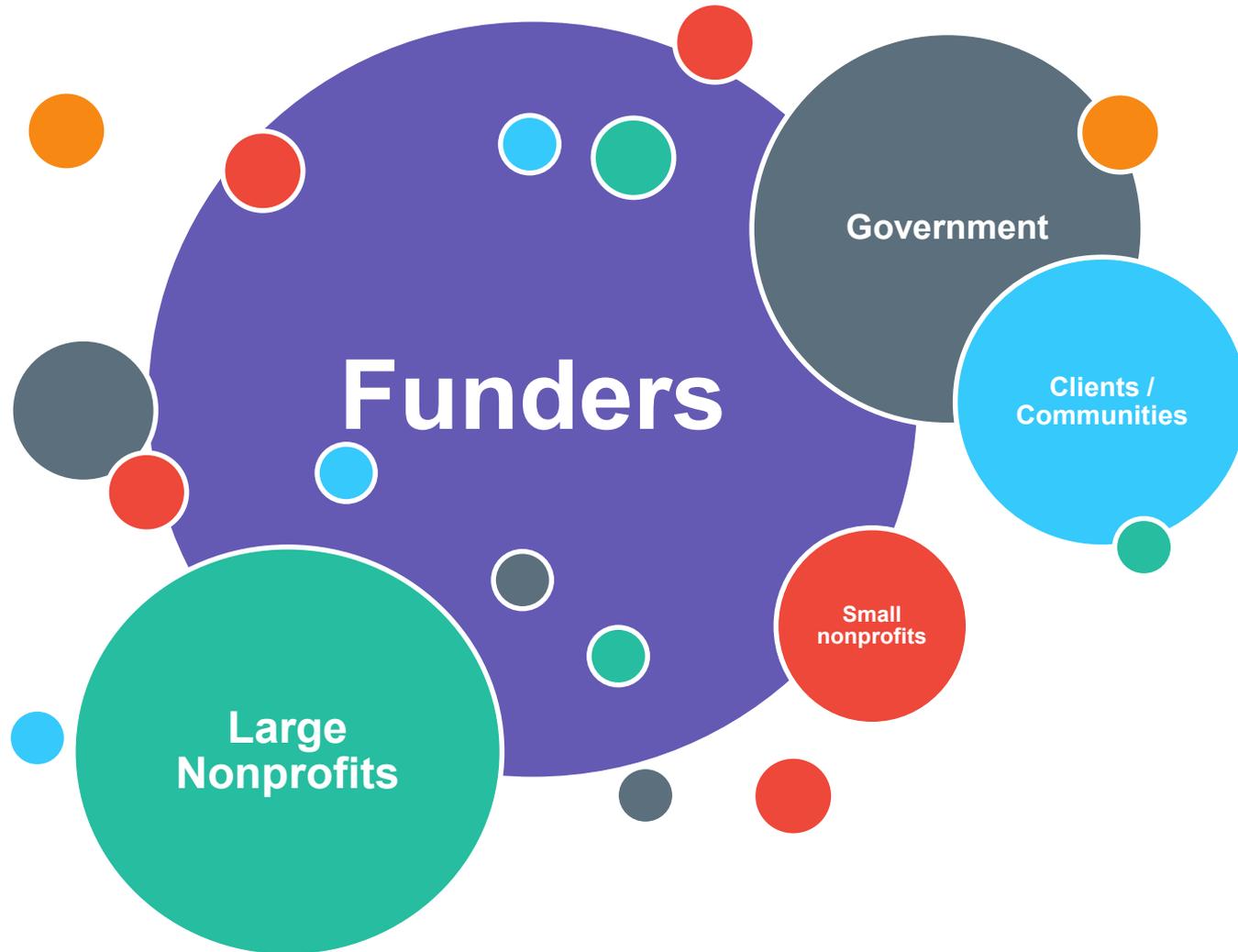
Nonprofits must run two businesses: Mission & Subsidy



- Subsidy businesses take their own set of capacities to run
- When program growth or change occurs, subsidies must grow in proportion
- Cost reduction strategies can have serious consequences for the mission

Myth of a Level Playing Field: Power Dynamics and Equity

Multiple, complex layers within and between organizations



Focusing on Equity

Image © Paul Kuttner www.culturalorganizing.org



EQUALITY



EQUITY

Sustainable Adaptability

Sustainable

Having enough resources to accomplish their mission now and in the future.

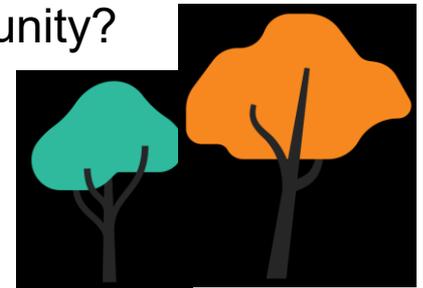
- Can they make it through this year & the next?
- Are they meeting the needs they set out to



Adaptable

Having enough resources to meet changing needs now and in the future.

- Can they adjust to new conditions if and when they need to?
- Do they know what to say “No” to?
- Are their services still the right services for their community?



Examining Racially Biased Financial Analysis - A Toolkit Summary

| Blindspot | Inequity Exacerbated |
|--|---|
| Whose board gives | Underestimating the support that some organizations without wealthy board members have from its community, and over-estimating the community engagement of others. |
| Who can afford below cost contracts and grants | Orgs with connections to private donors can take this on and the revenue that comes with it; those without connections and the ability to invest in more fundraising cannot. |
| Who can benefit from matching grants | Matching grants steer funding toward organizations already able to find the match |
| Minimum revenue required to secure some grants keeps small organizations small | Orgs without community financial wealth have harder time raising individual donations and managing “revenue risk,” as well as being “stable” enough for institutional funding. This leaves important, community organizations vulnerable. |
| Funders associate small organizations with community authenticity | Small, community-based organizations stay small and disconnected from larger donors with minimum-size rules. |
| Salaries can be much lower than the market value of the services being provided | Low salary signals to funders a lack of skill and experience or lack of financial savvy among the potential grantee’s leadership, making it harder to secure a grant, and reducing the grant size once secured if it is pegged to day rates of salary being paid. |
| Only certain volunteers count financially | If grant size is pegged to a set percentage of an organization’s revenue, or general view of its “size,” then the organization better-connected to credentialed professional volunteers will be eligible for larger grants. |
| Endowment existence/size | Funders who consider an endowment a marker of success may not give to the community center, despite its efficacy serving its community and its resulting popularity |

Examining Racially Biased Financial Analysis - A Toolkit Summary

| Blindspot | Addressing Inequity |
|--|---|
| Whose board gives | Count board commitment in other ways and count community engagement beyond the board with similar focus on total value, rather than money donated. |
| Who can afford below cost contracts and grants | Cover full costs. There is no way to be equitable without that. Help grantees understand and advocate for full-cost coverage from contracts and grants. |
| Who can benefit from matching grants | Do not make funding contingent on securing a match. Find other ways to motivate additional giving by offering to connect grantees to other donors |
| Minimum revenue required to secure some grants keeps small orgs small | Don't apply revenue size and composition blindly as a hallmark of financial health. Consider history of org and access. Provide funding for small orgs to build their capacity to manage larger contracts, and then set aside some money to fund smaller orgs with larger grants. |
| Funders associate small orgs with community authenticity | Assess proposals based on the org's potential to do the work, not its historic revenues; for larger funders, explicitly carve out some funding for smaller orgs to invest in their capacity to compete for and win larger grants. |
| Salaries can be much lower than the market value of the services being provided | Understand the value of the work being performed under a grant and provide larger grants to cover a reasonable rate for securing these services. Do not make funding rules that pay differential rates for the same work based on an org's historic budget size. |
| Only certain volunteers count financially | Don't rely on set ratios that limit grants to a certain share of total revenue without adjusting for context. Take the time to understand all the resources the org mobilizes. |
| Endowment existence/size | Don't use the existence of an endowment or lack as a consideration for funding. Find other ways to measure community support. |

How Do We Do It? The Strengths Framework

Financial Strength

Financial assets to pay for what you do



Intellectual Strength

How you know how to do what you do

People Strength

Your people and skills

Social Strength

Relationships and reputation

Nonprofits Need Profits: Understanding Full Cost

Like all organizations, nonprofits need to cover the full cost of delivering programs



Which Components Apply to You?

| | | |
|---|---|--|
|  | <p>Total Expenses Operating, non-operating, and unfunded expenses</p> | <p><i>Always needed by all organizations</i></p> |
|  | <p>Working Capital Access to cash for day-to-day needs</p> | |
|  | <p>Reserves Savings, a “rainy day” fund</p> | |
|  | <p>Debt Principal Repayment Mortgage, line of credit, etc.</p> | <p><i>Sometimes needed by some organizations</i></p> |
|  | <p>Fixed Asset Additions Money to purchase a new building or computers</p> | |
|  | <p>Change Capital Resources to adapt, grow, and/or expand</p> | |

Prioritizing Full Cost

Full cost follow a **hierarchy of need**

- **Liquidity**

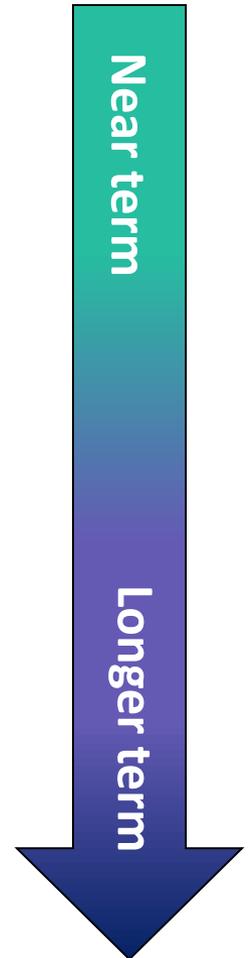
Does the organization have adequate cash to meet its month-to-month operating needs?

- **Adaptability**

Does the organization have flexible funds that allow for mitigating risks, growth, or change?

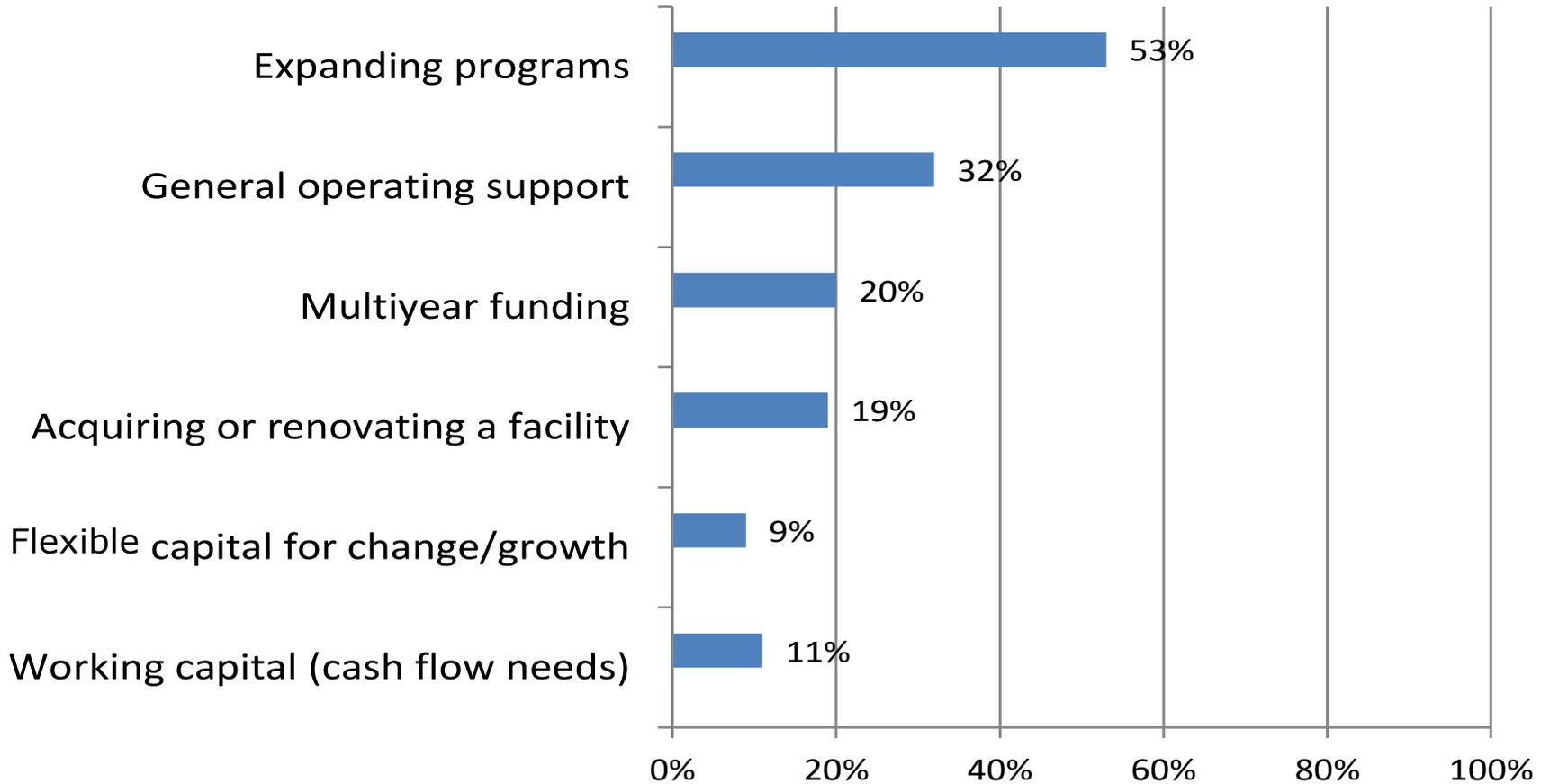
- **Durability**

Does the organization have access to funds to address a variety of future needs to deliver mission over the long-term?



What Do Nonprofits Feel They Can Discuss With Funders?

Nonprofit leaders said: *My NPO can have open dialogue with funders about...*

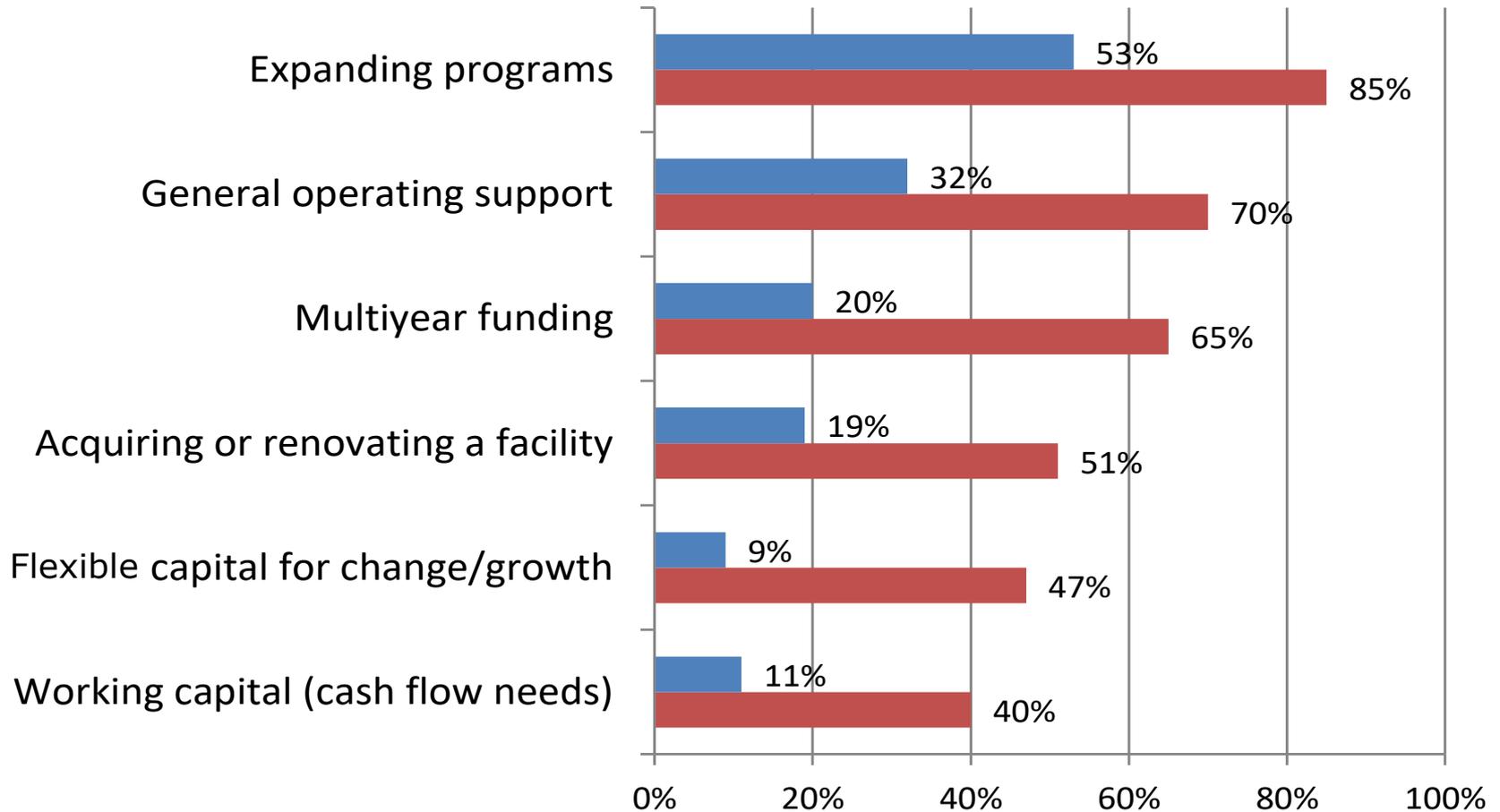


Source: NFF 2014 State of the Sector Survey

Funders Report More Openness Than Nonprofits Perceive

Nonprofit Leaders said: *My NPO can have open dialogue with funders about...*

Funders said: *Overall, are you willing to engage in an open dialogue with nonprofits on funding for these purposes?*



Source: NFF 2014 State of the Sector Survey

Source: Grantmakers for Effective Organizations 2014 Survey

nff.org © 2019 Nonprofit Finance Fund

Wrapping Up





Resources



[“A Push to Get Grants to Cover the Full Cost of Doing Good,”](#) published in *The Chronicle of Philanthropy*, December 3, 2019.



[“Addressing Racially-Biased Financial Analysis,”](#) a toolkit.



[“Color Blind’ Assessments of Grant Proposals Don’t Work. Here’s a Better Idea,”](#) by Antony Bugg Levine and published in *The Chronicle of Philanthropy*, October 29, 2019.



[The Full Cost Project,](#) a resource.



[“The Smartest Way to Promote Diversity: Pay for Overhead at Charities Led by People of Color,”](#) by Claire Knowlton and Trella Walker (NFF) and Fred Ali (Weingart Foundation) and published by *The Chronicle of Philanthropy*, June 20, 2019.

Thank You!

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