Nonprofit Finance Fund™

10 Finance Essentials for Social Sector Funders

Effective Funders....

1 ... understand that nonprofits must balance mission, capacity and finance to be effective.
Grants that affect one of these elements will always affect and change the others. For example, grants restricted to program, will affect and make draws on capacity and financial resources, even when unintended. This happens in all organizations, whether seen or unseen, planned or unplanned. Thus, top funders understand that it is possible to make a generous restricted grant and have it cost more to the grantee than its face value.

2 ... never ignore the "enterprise platform."
They realize that each of their grantees has a distinct enterprise platform (or business model), even when their missions or programs are similar. And they see that money is turned into program execution via the dynamic operation of the enterprise platform. They avoid "enterprise blind" grants, because they know that if the platform is weak, program execution will be undermined.

3 ... realize that "nonprofit" is a tax status, not a business plan.
It exists so enterprises can serve a social need where the for-profit and governmental sectors can't, won't or shouldn't, generally due to a gap or failure in the market economy. The tools provided nonprofits (501(c)3s)—tax exemption and tax-advantaged charitable contributions—are meant to reliably subsidize healthy operations, and this means surpluses. A wise funder is glad when its grantees operate with surpluses.

4 ... make grants that take into consideration and accurately reflect a grantee's financial state.
To do this, they insist on having clear, reliable, routine, management-friendly financial information that is appropriate given the size and complexity of a grantee's operations.

5 ... think outside the grant by understanding the "whole enterprise," not just the individual program they're funding.
This requires them to understand each grantee's program story in financial terms, and financial story in program terms. This also demands that funders spend time becoming familiar with their grantees short- and long-term financial forecasts and know the levers that will make those predictions more or less likely.

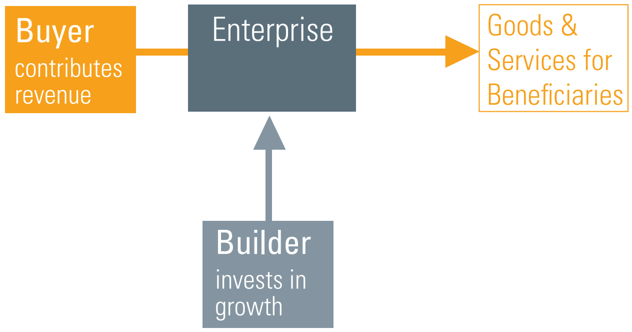
6 ... think "net grants" and tread lightly on "unfunded mandates" accompanying project and restricted funding.
Both net grants and unfunded mandates carry hidden expenses—such as fundraising time, data systems upgrades, customized reporting and staff training, to name a few. These expenses reduce the amount of the grant that is actually available to serve the public.

7 ... understand that nonprofits manage in a looking-glass world, commercially speaking.
Many of the conventions that for-profit managers rely on are reversed or improbable in the nonprofit environment: growth almost always increases the need for fundraising and decreases "self sufficiency"; cash is not always fungible, "surpluses" are often prohibited; expenditures on overhead are seen as wasteful…and more. This knowledge keeps wise funders from urging organizations along a financially risky path.

8 ... understand that nonprofits run at least two businesses.
There's the core business, related to delivering on mission, and then there's the business (usually fundraising) that makes up for the market flaw. This means that when program expands, so must the "subsidy business," or problems ensue.

9 ... understand that growth is especially demanding in the nonprofit world, for commercial reasons.
Growth for nonprofits is more capital intensive, takes longer and is riskier from a quality control and mission perspective than for for-profits. Growth, and increased revenue, may mean decreased *net* revenue. Effective funders therefore look at enterprise platform and mission to understand how best to fund—whether it's sustaining day-to-day operations, supporting programs, or funding growth—and have reasonable programmatic expectations of growing grantees.

10 ... know their role—as buyer or builder—and play it well.
They distinguish regular, routine operating revenue from capital and extraordinary revenue, and gather their colleagues to co-invest when their own grant resources won't get a growing nonprofit where it needs to go. They celebrate general support grants, and urge colleagues to make them available.



Nonprofit Finance Fund (NFF) works to create a strong, well-capitalized and durable nonprofit sector that connects money to mission effectively, supporting the highest aspirations and most generous impulses of people and communities.