Diversifying Revenue: Developing a Stable Donor Base

Alicia Schatteman
DCNP – May 25, 2016
Agenda

• Introductions
• Background: Financial Problems of Nonprofit Organizations, Giving in the US, Nonprofit Sustainability
• Fundraising: The Art and the Science
• Fundraising Assessment
• Donor Education
• Wrap-Up
About Me:
www.nonprofitscholar.com
Little of nonprofit’s money goes to charity

Three years before his death in 2008, comedian and actor Bernie Mac founded a charity to help fellow sufferers of sarcoidosis, which causes inflammation of the body’s tissues. But a Tribune review of 2007-08 financial statements shows thecharity’s net income was just $290,000, or less than 1% of what it received.

Bernie Mac Foundation Spending

<table>
<thead>
<tr>
<th>Charitable</th>
<th>All other</th>
</tr>
</thead>
<tbody>
<tr>
<td>$230.3</td>
<td>$232.4</td>
</tr>
<tr>
<td>$250</td>
<td>$500</td>
</tr>
<tr>
<td>$200</td>
<td>$100</td>
</tr>
</tbody>
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Bono’s ONE foundation gives little over fire

BY DAILY MAIL REPORTER

United Way Scandal Could Embolden Many To Just Say No

April 09, 1992 | By Joan Beck.

All that damage control going on at the United Way of America may not work. The abuse of power and money was too great. The promises of change seem too quick and too slick.

The whole sorry affair hits a nerve with countless employees whose bosses arm-twist them every fall to give their “fair share” of their paycheck to a non-profit foundation that let its president spend $92,965 on chauffeured limousines and $40,762 on Concorde flights to Europe over three-year periods. Investigators say William Aramony apparently used United Way of America money to pay for much of what other perks. For example, his UWA expenses included $33,650 for air fare to or through Gainesville, Fla., the home of a close female friend, from 1988 to 1990.
Redmoon Theatre in Chicago Bankrupt

- Moved into a new warehouse space, which required a monthly rent payment in excess of $30,000
KidsPeace owes creditors more than $100 million and has assets valued at less than $50 million, according to its Chapter 11 petition in U.S. Bankruptcy Court in Reading, Pennsylvania.
Ex-Bear Zorich agrees to pay back $350,000 in charity funds

State investigation determined that those funds ran outside the law.

August 21, 2012 | By Jared S. Hopkins

Former Bear Chris Zorich sentenced to probation in tax case

Chris Zorich, the former Chicago Bears player who pleaded guilty in March 2013 to misdemeanor charges for not filing federal income tax returns, arrives at the District U.S. Courthouse for his sentencing. (Photo Credit:Antonio James, Chicago Tribune)

By Jared S. Hopkins
Tribune reporter

AUG 12, 2013 5:59 PM
Agency officials have said it is millions of dollars in debt and the decision to close came after managers and trustees worked for two years to reduce operating costs and improve services.

Hull House’s 300 employees had been providing services for 60,000 people a year in the Chicago area.
But the need is great....

- Homeless individuals
- Lack of healthcare for children
- Decreasing government dollars for education and social services
- Unemployed individuals
- Senior care
- Hospitals
- Preserving our history and culture
- Responding to disasters
- Affordable Childcare
- Affordable housing
- Etc. etc. etc.
Facts about U.S. Philanthropy:

• The U.S. has the largest system of organized private philanthropy in the world.
  – If nonprofits in the U.S. were a single industry, they would rank as the nation’s largest industry, accounting for just under 10% of the workforce and about 5% of the gross domestic product.
  – About 1.7 million tax exempt organizations, not including churches/faith communities
Nonprofit Sustainability = “the double bottom line”

Financial EFFICIENCY + Program EFFECTIVENESS

Money
• Are we managing our resources for maximum efficiency?
• Are we getting enough financial return/profitability to continue?
• How do we measure this?

Mission
• Are we meeting our program goals and objectives (inputs, outputs, outcomes)?
• Are we having an impact on our mission?
• How do we measure this?
Nonprofit Funding Sources

- Fees for service
- Earned income/social enterprise
- Individual gifts
- Corporate sponsorships/gifts in kind
- Federated Funds (United Way)
- Local and state governments contracts/line item funds
- Grants (government, foundations, corporate)
- Investment/Endowment income
Revenue Mix Important

- Diversity protects against risk
- Keeps fundraising central to efforts
- Control your own destiny through earned revenue
- Individual contributions safest bet because they have the highest loyalty to your cause
• Each different type of income requires a different transactional infrastructure.
• A large donor base needs care and nurturing and government contracts need reporting and compliance and grantwriting of a particular type.
• Each stream of income has its own transactional costs.
• There is a tradeoff with establishing a new revenue stream that might not make it worth it.
What is a grant?

• “an award of money that allows you to do very specific things that usually meet very specific guidelines that are spelled out in painstaking detail and to which you must respond very clearly in your grant proposal” p. 15
Figure 17.1. Source of Foundation Funding ($Billions)

- Operating Foundations: $3.5
- Corporate Foundations: $4.4
- Community Foundations: $4.1
- Independent Foundations: $30.9

FIGURE 17.2. RECIPIENT ORGANIZATIONS BY DOLLAR AMOUNT

- Health: 23%
- Education: 23%
- Arts and Culture: 12%
- Human Services: 14%
- Environment and Animals: 6%
- International Affairs: 5%
- Science and Technology: 3%
- Religion: 2%
- Public Affairs and Society Benefit: 11%
- Social Sciences: 1%

1Includes Civil Rights and Social Action, Community Improvement and Development, Philanthropy and Voluntarism, and Public Affairs.

Your Future, Our Focus
Your Future, Our Focus
Information Sources

- Foundation Center
- Online searches
- Chronicle of Philanthropy
- Local/regional press
- Internal detection routes
Foundation Directory Data

- Name of the Foundation, its address, phone number and website.
- 990-PF forms in recent years.
- Donors supporting the organization (if it’s an independent foundation).
- Background of the foundation, including its history.
- Funding limitations, outlining explicitly any areas that the foundation will not fund.
- Purpose and Activities, including mission statement.
- Program Areas, detailing information about its funding programs.
- Field of Interest, including broad categories of causes that the foundation may support.
Foundation Center Online

- [https://fdo.foundationcenter.org/](https://fdo.foundationcenter.org/) FREE
- Subscriptions: [https://subscribe.foundationcenter.org/fdo](https://subscribe.foundationcenter.org/fdo)

[NIU Logo]
And

- Geographic Focus.
- Types of support.
- Publications.
- Application information
- Officers and Trustees.
- Number of Staff.
- Membership:
- Financial data.
- Selected grants.
Content of a Typical Proposal

- Table of contents
- An executive summary
- A statement of need
- Objectives
- Project Description
- Evaluation
- Organizational Expertise
- Future Plans
- Budget
- Additional Support
- Appendices
FIGURE 17.7. THE GRANT CYCLE

Applications Distributed to Trustees

December
Trustee Meeting

October
Application Deadline

Grants Awarded

April
Grants Awarded

Application Deadline

July
Trustee Meeting

Applications Distributed to Trustees

Problem: There has been an increase in youth truancy (not showing up to school) in the city as evidence be recent data released by the District.

Your solution: Host parent meetings to inform of them of the policy and seek their support in getting the kids to school on time.

Anticipated outcome: 50 parents at each of three meetings

Total cost: $3,000 for staff of your organization to organize and run the meetings.

Grant request: $3,000
Problem: There are limited opportunities for students graduating from high school to seek full-time employment in your area.

Your solution: Provide mentoring with trade professionals such as electricians and mechanics, partner with schools for internship opportunities for credit before the kids graduate.

Anticipated outcome: 75 students per year graduating with paid apprenticeship positions.

Total Cost: $7,000 for staff to organize and supervise mentoring; $3,000 direct costs for travel, food, marketing.

Grant Request: $2,000 from foundation, $5,000 from local businesses, $3,000 from the School District.
Grant #3

• Problem: Families are not buying quality food for their families due to high cost of food which impacts child development and learning

• Your solution: Create a “farmer’s market” of free food provided by local food pantries, soup kitchens and churches, once per month – where families can sample healthy foods and shop for free

• Anticipated outcome: 1,000 families reached over a year; children have healthier food choices, stronger and better able to concentrate and learn

• Total cost: $5,000 direct costs for marketing materials and space rental for the year; $1,000 for intern to manage program

• Grant Request: $6,000
• Problem: Youth do not reach out before having a mental health crisis and then it might be too late resulting in an increase in suicide.

• Your solution: Youth need to be more aware of the assistance available to them.

• Anticipated outcome: 1 hour school assemblies, held at 15 schools, reaching 5,000 kids

• Total Cost: $20,000 which is half the salary of an outreach coordinator to organize and conduct these assemblies, $5,000 in direct expenses such as posters, marketing, website development

• Grant Request: $12,500 with additional $12,500 matching as a gift in kind (salary paid by the organization)
<table>
<thead>
<tr>
<th>Category</th>
<th>% of Respondents Identifying</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicant did not read requirements</td>
<td>55.3</td>
</tr>
<tr>
<td>Applicant sent large amounts of unnecessary information</td>
<td>23.4</td>
</tr>
<tr>
<td>Application poorly presented</td>
<td>19.2</td>
</tr>
<tr>
<td>Applicant did not state how funds would be used</td>
<td>14.9</td>
</tr>
<tr>
<td>Applicant did not read instructions for making their application</td>
<td>14.9</td>
</tr>
<tr>
<td>Applicant did not include their accounts (when requested)</td>
<td>14.9</td>
</tr>
<tr>
<td>Applicant did not make clear their tax status</td>
<td>12.8</td>
</tr>
<tr>
<td>The application was impersonal and mass-produced</td>
<td>12.8</td>
</tr>
<tr>
<td>No reply envelope was included (where requested)</td>
<td>10.6</td>
</tr>
<tr>
<td>Applicant was “overfriendly” in either postal or telephone communications</td>
<td>8.5</td>
</tr>
<tr>
<td>Applicant sent insufficient information for a decision to be made</td>
<td>8.5</td>
</tr>
<tr>
<td>Applicant did not state the amount of funding that was sought</td>
<td>6.4</td>
</tr>
<tr>
<td>Application was too “plush”</td>
<td>6.4</td>
</tr>
<tr>
<td>Other</td>
<td>8.6</td>
</tr>
</tbody>
</table>

Grant Tradeoffs

- Typically for restricted projects or programs, specifically will not pay for certain expenses
- Extensive reporting requirements
- Time consuming to research for fit, develop the proposal, wait for decision, if awarded, to get systems in place, reporting on grant
- Grant makers like capacity building grants (young nonprofits – or new and different programs) not long term funding
- More and more focused on measurement of impact on the community
- Less likely to invest in individual fundraising when pursuing grants, different skill sets, different capacities
• You cannot “grant” your way out of a hole.
Giving USA 2014

- Bequests: $27.73 (8%)
- Corporations: $17.88 (5%)
- Foundations: $48.96 (15%)
- Individuals: $240.60 (72%)

www.givingUSAReports.org
Fundraising: An Art AND a Science

- **Art:** listening, feeling connected to the donors, empathy, sincerity, thanking donors, respecting donors
- **Science:** donor prospect, analyzing who to approach (prospect research), keeping careful notes and records (database management), donor recognition
Chasing Money

- Large mission or undefined mission
- No strategy
- Look everywhere for money
- Emotional appeals
- Change programs to meet funding requirements
- Uneven revenue streams
- Higher staff/Board turnover
- Narrow support
- Risk-averse organizational culture
AND NOW FRED WILL GIVE US THE TREASURER’S REPORT.

"...SO IN CONCLUSION, WE PROJECT A DEFICIT OF TWICE THAT OF THE PREVIOUS PERIOD."

THIS IS SO SERIOUS THAT THERE’S A REAL QUESTION WHETHER OR NOT WE CAN KEEP OUR DOORS OPEN BEYOND TOMORROW!

THANK YOU, FRED, FOR THAT NICE REPORT. NOW LET’S MOVE ON TO THE NEXT TOPIC.
Signs of Financial Trouble For Nonprofit Organizations

– Decline in utilization of organization’s services by the local community
– Increasing incidence of being turned down for grant requests
– Criticism of the organization or its programs by public figures or media
– Increasing reliance on very few different sources of support
– New or growing debt
– Increasing incidence of revenue shortfalls
Attracting Money

- Mission driven: partnerships, strategic alliances
- Transparent
- Have a strategic plan and live it
- Focused on outcomes, results
- Board/staff stability
- Deep and focused support
- Stable and focused sources of support
- Learning organizational culture
Fundraising

- Fundraising is about value creation
- No organization is able to function without money.
- Raising funds is one of the most natural activities in which Board members or active supporters can engage to show their own enthusiasm about an organization and its programs.
Who is a philanthropist?

- About 7 in 10 adults in the U.S. give away money.
- Middle and lower income donors are responsible for a significant percentage of the money given - from 50-80% -- and are the majority of givers.
- Most people who give to nonprofits give to at least 5 and as many as 15 groups.
- Volunteers are more likely to be donors than people who don’t volunteer.
- More people give away money than vote.
- Most people who give away money describe themselves as religious or spiritual.
Giving Trends

• Total giving has increased in current dollars every year since 1969 except 1987 (tax law changes) and 2009
• Total giving likely to increase with overall economy improvement with a leg economic growth by a year or more
• 819,000 nonprofits in 2000, now 1.2 million
### Why Confidence in the Nonprofit Sector Has Decreased

<table>
<thead>
<tr>
<th>Factor</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scandals in the sector</td>
<td>73%</td>
</tr>
<tr>
<td>People don’t understand the complexity of the sector</td>
<td>48%</td>
</tr>
<tr>
<td>Nonprofit executives’ salaries</td>
<td>45%</td>
</tr>
<tr>
<td>Low program ratios</td>
<td>12%</td>
</tr>
<tr>
<td>Its much easier to get information on nonprofits today</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Coffman (2006)
Reasons for Ending Financial Support

1. Donor no longer felt personally connected
2. Too frequent solicitation of donor
3. Nonprofit not fulfilling mission
4. Donor experienced decreasing personal income
5. Nonprofit misled public
6. Nonprofit mismanaged assets
7. Inaccurate recordkeeping of donations by nonprofits
Individual Gifts

- Individual gifts will probably comprise between 30 and 80% of your revenue, the single largest source.
FUNDRAISING: THE ART
Donor Loyalty

“Building donor loyalty is the single biggest challenge facing the nonprofit sector”
Why?

- High costs to acquire new donors
- Lost opportunities to have them support you in other ways or in larger amounts
- Loyal donors or vocal supporters and get others to support you
- Loyal donors are the best prospects for bequests.
• Donor Loyalty is an emotional connection and relationship between donors and your organization. The relationship itself is defined by the donor’s perception.

• Donor communications fosters loyalty when you are NOT asking for money
Donor Motivation

- Need for self esteem
- Guilt
- Pity
- Social Justice
- Fear
- Sympathy
- Negative State Relief
- Prestige and making a difference
- Remembrance
Fundraising is relationships: built slowly and honestly over time

- Investing in an ongoing dialogue with donors is a smart strategy
- How do donors want to be communicated with?
- What information do they want?

Dear Donor,
Thank you!
Giving is an Emotional Decision

- Fundraisers must cultivate donors’ sense of identification with a nonprofit organization
- Role for board members
• Online donations are an easy way to increase revenues **MYTH**

• Some organizations are very successful raising funds online, and some are not

• Why? Putting a DONATE NOW button on your homepage is not a strategy
Advantages of Online Fundraising

• Donors find you
• Broad access to the Internet (but not everyone)
• Free or inexpensive software for nonprofits to accept online donations
• Easy to communicate with donors
• Can attract a large number of small donors
Disadvantages of Online Fundraising

• Lacks the person-to-person experience, still the most effective method
• Not large donations, generally small
• Reliance on third-party vendors to process donations cuts into revenue, reliance on vendor to uphold brand and act ethically
Services

- Nonprofits must invest in a premium, mobile-compatible online fundraising service:
  - StayClassy [https://www.classy.org/](https://www.classy.org/)
  - DonationPay [https://www.donationpay.org/site/](https://www.donationpay.org/site/)
  - Donor Drive [http://www.donordrive.com/](http://www.donordrive.com/)
  - Public Good [https://publicgood.com/](https://publicgood.com/)
  - Connect 2 Give [http://www.connect2give.com/](http://www.connect2give.com/)
  - Mobile Cause [https://www.mobilecause.com/](https://www.mobilecause.com/)
Viral Fundraising Accidents

Here is a breakdown of how your dollars are making a difference.

$115 MILLION
Raised from 2014 ALS Ice Bucket Challenge

$77 MILLION

Research 67%

$23 MILLION

Patient & Community Services 20%

$10 MILLION

Public & Professional Education 9%

$3 MILLION

Fundraising 2%

$2 MILLION

External Processing Fees 2%

Your Future, Our Focus
• The fundraiser’s role is to stimulate giving by determining donor motivation.
• Reasons for giving:
  – Those who have more should go to those who have less 79.%
  – Something is owed to the community 58.3%
  – Personally asked to give 55.9%
  – To fulfill a religious obligation or belief 42.4%
• Prospect research is what you do to learn more about your current supporters and potential supporters

• Acknowledgement and recognition key to building strong donor relationships
Donors are Shaped by Society and Culture

– Individual culture vs. collective culture
– Matters as to how we talk about the needs of others and the best way to meet those needs
– It matters when we talk about need-based programs versus rights-based, qualifying for help and what that does to a person
Framing the Story

• Facts and figures are less attractive than narratives
• In short, when it comes to charitable giving, we are often ruled by our hearts and not our heads.
• Giving is creating opportunities for others to fulfill their own goals, matching needs of the donor with the organization
• Fundraising is about raising funds for an organization
Why do people give?

- Behavioral Economics researchers:
- Three broad categories
  - the purely altruistic – I donate because I value the social good done by the charity
  - the “impurely” altruistic – I donate because I extract value from knowing I contribute to the social good for the charity
  - the not-at-all altruistic – I donate because I want to show off to others how rich I am
• The good news is that charitable giving is contagious – seeing others give makes an individual more likely to give and gentle encouragement from a prominent person in your life can make a big difference to your donation decisions.

• Habit also plays a part – those who volunteered before were more likely to donate their time than those who had not volunteered before.
Spending money on others actually makes us happier than spending it on ourselves, and makes us healthier.
FUNDRAISING: THE SCIENCE
Prospect Identification

SO HOW DO YOU TARGET PROSPECTS?

I ANALYZE OUR NEEDS, OUR CAPABILITIES, AND WHO MIGHT SUPPORT US.

WHAT DO YOU DO TO FIND DONORS?

PRETTY MUCH THE SAME THING.

Copyright Grantland Enterprises; www.grantland.net

Your Future, Our Focus
The Fundraising Cycle

Goal is to manage fundraising efforts as efficiently as possible.

1. Identification
2. Cultivation
3. Solicitation
4. Stewardship

Your Future, Our Focus
Individual Characteristics: Prospect Research

- Age
- Gender
- Income
- Race
- Home Ownership
- Marital Status
- Children
- Religion
- Geo-demographic
- Lifestyle
The Donor Pyramid: Moving Donors Up

- Bequests
- Lead donors
- Regular major donors
- First-time major donors
- Regular donors
- First-time donors
- Prospects

Your Future, Our Focus
Prospect Identification

• Segment current donors into categories of major gifts, annual donors
• Define major gifts
• Volunteers
• Board members
Prospect Qualification

- Peer screening using the board and volunteers, have them review lists, ask who they knew and what they know about them (development committee)
Database Screening

- Paid service
- Focuses efforts
- Information is time sensitive
Data Mining

• Find individuals in existing database yourself who share similar patterns to your major donors such as gift frequency or size of gift
Creating Donor Profiles

- Use free resources
- Focuses on the potential donors’ linkage, ability, and interest
- Verified contact information
- Any and all ties to the organization and documented
- Biographical information: family, civic activities, education
- Giving history
- Wealth indicators: real estate, business interests, family foundations
- Gift capacity: assets, rating
Prospective Donor Management

- Purpose is to facilitate communication, track all activity leading ultimately to a gift
- Hold donor review meetings regularly with staff and board, update on donors and research, update on timing of potential gifts
- Come up with a strategy to engage the donor, system in place to track the effectiveness of those strategies
Characteristics of Major Donors

- Education is correlated with charitable giving levels, even when controlling for differences in income and wealth
- People with strong interest in and good knowledge of the nonprofit
- Individuals who have given in the past
- Individuals who have had personal contact with the organization
- Have high wealth
Why give large gifts?

1. Meet critical needs (86%)
2. Give back to society (82%)
3. Reciprocity (81%)
4. Bring about a desired impact (68%)
5. Nonprofits should provide services that government cannot (64%)
6. Being asked (63%)
Thank you!

• Need to thank donors a minimum of 7 times
  – At the end of the solicitation
  – Follow up phone call
  – Informal note from staff
  – Formal letter from Chair of the Board
  – Press release
  – Private invitations to events
  – Show the donor the work being done
  – Offering naming opportunities
  – Small gifts or tokens of appreciation
DeKalb Public Library

- https://www.wealthengine.com/ donor prospect software
Donor Analytics

- Fundraising return on investment
- Cost to get a new donor
- Retention rate of donors year over year
Types of Nonprofit Reporting

Mandatory
- IRS 990
- Audited Financial Statements
- Board Minutes

Voluntary
- Audited Financial Statements
- Annual Report
- Strategic Plans
- Meetings
- Budgets
- Website
- Ads

External
- Performance Data Reports

Internal
Online Accountability: Website

- Policies and code of ethics
- Financial transparency: years of 990s, audited financial statements
- Annual reports
- Strategic plans
- Performance Reports
- Board names, bios, contact information
- Staff names, bios, contact information
FUNDRAISING ASSESSMENTS
Budgeting for Fundraising

- **Fundraising is a profit center**
- Fundraising should be a multi-year investment with reliable expectations for profit, 3 year investment strategy for each solicitation method used
- Should be a separate fundraising budget for each and every solicitation program: direct and indirect costs
• Creating fundraising budgets – [video]
• Calculate staff costs (salary and benefits) and volunteer time
• All of your net proceeds from fundraising roll up to the overall fundraising goals for the organization
• “Collecting detailed expenses and attributing them to each solicitation program is a major challenge” Why?
• Need better internal accounting support, fund accounting
Assigning Costs

- **Direct costs**: printing, postage, meetings, equipment rentals, food and beverages, entertainment, travel, telephone, etc.

- **Indirect costs**: staff salaries and benefits, meeting support, legal and accounting fees, computer and Internet fees, data processing fees, donor communications, staff education and training, gift processing, newsletters etc.

- **Overhead costs**: assigning a portion of electricity, heat, insurance, rent, water etc.
# Fundraising Event Budgets

## Excel

### Fundraising Ratios

<table>
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<tr>
<th>#</th>
<th>Description</th>
<th>Example</th>
<th>Calculation</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td>If total expenses divided by net revenue exceeds 0.50 per $1.00 raised, then too high.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Example: Net income</td>
<td>$5,382</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Expenses</td>
<td>$13,118</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Expenses/Net Revenue</td>
<td>$2.44</td>
<td></td>
</tr>
</tbody>
</table>

| 2.  | If total expenses are more than 33% of total income, then too high          |         |               |
|     | Example: Total income                                                      | $18,500 |               |
|     | Total direct and indirect expenses                                          | $13,118 |               |
|     | Ratio                                                                       | 70%     |               |
Other reporting

• Know the sources of all gifts, total number, gift amount and the average gift by type of donor: board, staff, new donors, grants etc.

• Understand the purpose or uses of all funds raised: unrestricted, temporarily restricted (will use within one year or for a specific purpose), permanently restricted (endowment)

• Track each fundraising program by number of gifts received, gift income, average gift size

• Track fundraising budgets to actual and over multi-years
Fundraising Audits

• **P.E.S.T.**
  – Political factors: government attitudes, legislation
  – Economic factors: trends in wealth, employment, tax, consumption, disposable income
  – Sociocultural factors: demographics, social attitudes
  – Technological factors: impact of technology on fundraising and the nonprofit sector
Where do you get the data from?

- **Secondary data**: existing publications, reports, studies, Census
- **Primary data**: collect new data yourself; focus groups, surveys
- **Administrative data**: data you already collect in the organization; donor records, website analytics, emails etc.
DONOR EDUCATION
Functional Categories on IRS 990

- **Program Services**: Providing goods & services to beneficiaries, customers, or members that fulfill the mission
- **Management & General Planning**: oversight & management of the overall organization, including governance & finance
- **Fundraising**: Soliciting contributions, including volunteer & in-kind services
Nonprofit Expenses

• IRS allocations of expenses does not measure financial efficiency OR program effectiveness
Functional Expense MYTHS

• Salaries, rent, and evaluation expenses are overhead expenses.
• Ratio of program/overhead expenses measures efficiency.
• Overhead ratios are useful for comparing nonprofits to determine effectiveness.
• Fundraising is bad for the organization
• Most nonprofits don’t spend enough on “overhead”
• They underinvest in capacity and resource development, inhibits growth and stretches capacity

▪ How nonprofits “play” this game?
  ▪ Underfund overhead: Underestimate overhead for grants/contracts
  ▪ Misleading reporting: Allocate general administration and fundraising to programs on the IRS form to reduce “overhead”
Measuring Nonprofit Effectiveness: Parenting Analogy

- I want to be a good parent? (define good)
- I want to have successful kids? (define successful)
Measure my parenting mission with my tax return?
Saving Philanthropy Through Measurement
http://www.savingphilanthropy.org
REAL Costs of Nonprofit Operations


[BBB Wise Giving Alliance](https://www.bbb.org/)
[Charity Navigator](https://www.charitynavigator.org/)
[GuideStar](https://www.guidestar.org/)
• In 2013, GuideStar, BBB Wise Giving Alliance, and Charity Navigator wrote an open letter to the donors of America in a campaign to end the Overhead Myth—the false conception that financial ratios are the sole indicator of nonprofit performance.

• In October 2014, these same organizations invited the nonprofits of America to do their part to focus donors’ attention on what really matters: your organization’s efforts to make the world a better place.
Other Resources

- **Forefront, Chicago**, (formerly Donors Forum) IL: state nonprofit association
  [https://myforefront.org/](https://myforefront.org/)
  - Free and fee-based programs and events
- Board Source
- Guidestar [www.guidestar.org](http://www.guidestar.org)
- BBB Wise Giving Alliance [Standards for Charitable Accountability](https://www.bbb.org/standards-for-charitable-accountability)
- Charity Navigator [Charity Navigator Ratings](https://www.charitynavigator.org)
- Standards for Excellence Institute
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