“A nonprofit organization (NPO) is an organization that uses surplus revenues to achieve its goals rather than to distribute them as profit or dividends.”


“While not-for-profit organizations are permitted to generate surplus revenues, they must be retained by the organization for its self-preservation, expansion, or plans.”

IRS Publication 4220 (Rev. 8-2009)
Putting the Profit in Nonprofit

Funding source

- Unrestricted Operating
- PRI
- EQ2
- LIHTC
- Section 8
- Stewardship Responsibility

0 20 40 60 80 100 120
Putting the Profit in Nonprofit

For-profit
- Operations
- Selling an asset
- Taking on debt
- Issuing stock

Nonprofit
- Operations
- Selling an asset
- Taking on debt
- Charitable contributions
Putting the Profit in Nonprofit

- Making Money from Operations
- Raising Equity and Debt
- Reputational Risk
- Charitable Contributions
Making Money from Operations

- Developer fees
- Property management fees
- Service contracts
- Property cash flow
Making Money from Operations

- Service contract reimbursement delays

$12 million contract + 60 day delay + line of credit at 6% interest = $10,000 per month
Putting the Profit in Nonprofit

Making Money from Operations

- Property cash flow – incentivize long-term ownership
Raising Equity and Debt

- Unsecured loans, PRIs, EQ2s
- Effect on balance sheet
- Recommendations (for developers)

Use unsecured loans, PRIs, and EQ2s to increase capital base, not just to pay for carrying costs of one or two projects.

Set aside a portion of developer fees to grow a reserve for future development.
Raising Equity and Debt

- Recommendations (for lenders/investors)

Treat equity-like debt differently for leverage evaluation purposes.
Questions

Should lenders/investors assume that unsecured lines of credit and EQ2 investments signal confidence in an organization?

Should an EQ2 be reflected in a leverage ratio differently from must-pay debt?
Raising Equity and Debt

- Selling properties
  - Limited value of assets
  - Reputation
  - Recommendation

Funders should allow a social enterprise owner’s subordinate debt to be forgiven (or assigned) at the point of sale in real estate markets where affordable rents are similar to market rate rents.
Refinancing

Funders should allow the subordinate debt to be subordinated to the new loan rather than requiring repayment.
Putting the Profit in Nonprofit

Making Money from Operations

Raising Equity and Debt

Reputational Risk

Charitable Contributions
Reputational Risk

- Failure is not an option
- Recommendation:

Organizations should vigilantly raise awareness to funders about reputational risks.

Lenders/investors should allow for an orderly transfer of troubled assets if sponsors can no longer serve as proper owners or stewards.
Putting the Profit in Nonprofit

- Making Money from Operations
- Raising Equity and Debt
- Reputational Risk
- Charitable Contributions
Charitable contributions

- Recommendations

Social enterprises should treat charitable contributions as a business line - requiring resources and capacity.

Philanthropic funders should consider providing seed capital for fundraising and marketing efforts to grow social enterprises.
Putting the Profit in Nonprofit

- www.EnterpriseCommunity.org/Strengthen

- Questions?