

Building Sustainable Organizations: Putting the Profit in Nonprofit

May 9, 2012



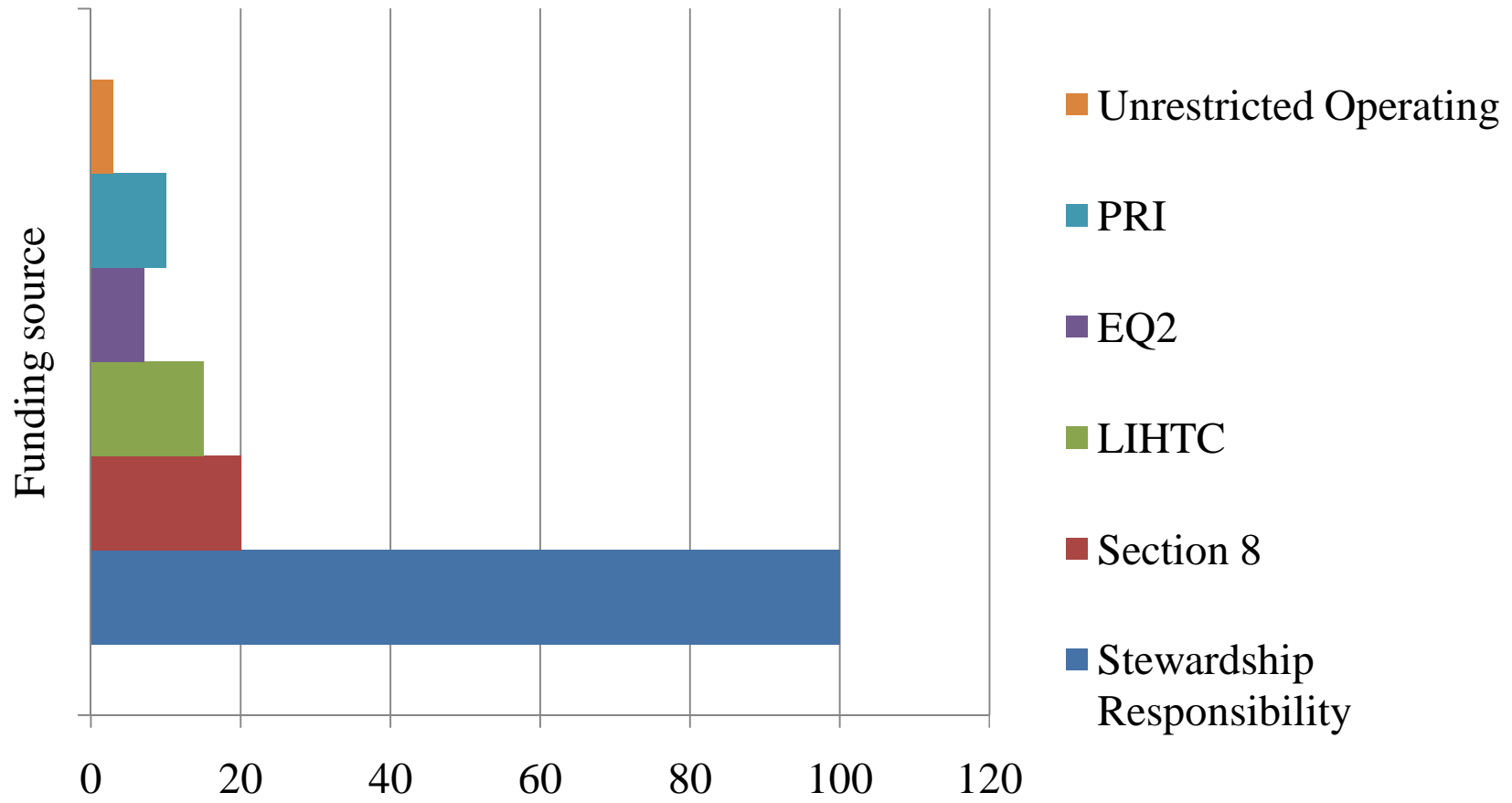
“A **nonprofit organization (NPO)** is an organization that uses surplus revenues to achieve its goals rather than to distribute them as profit or dividends. ”

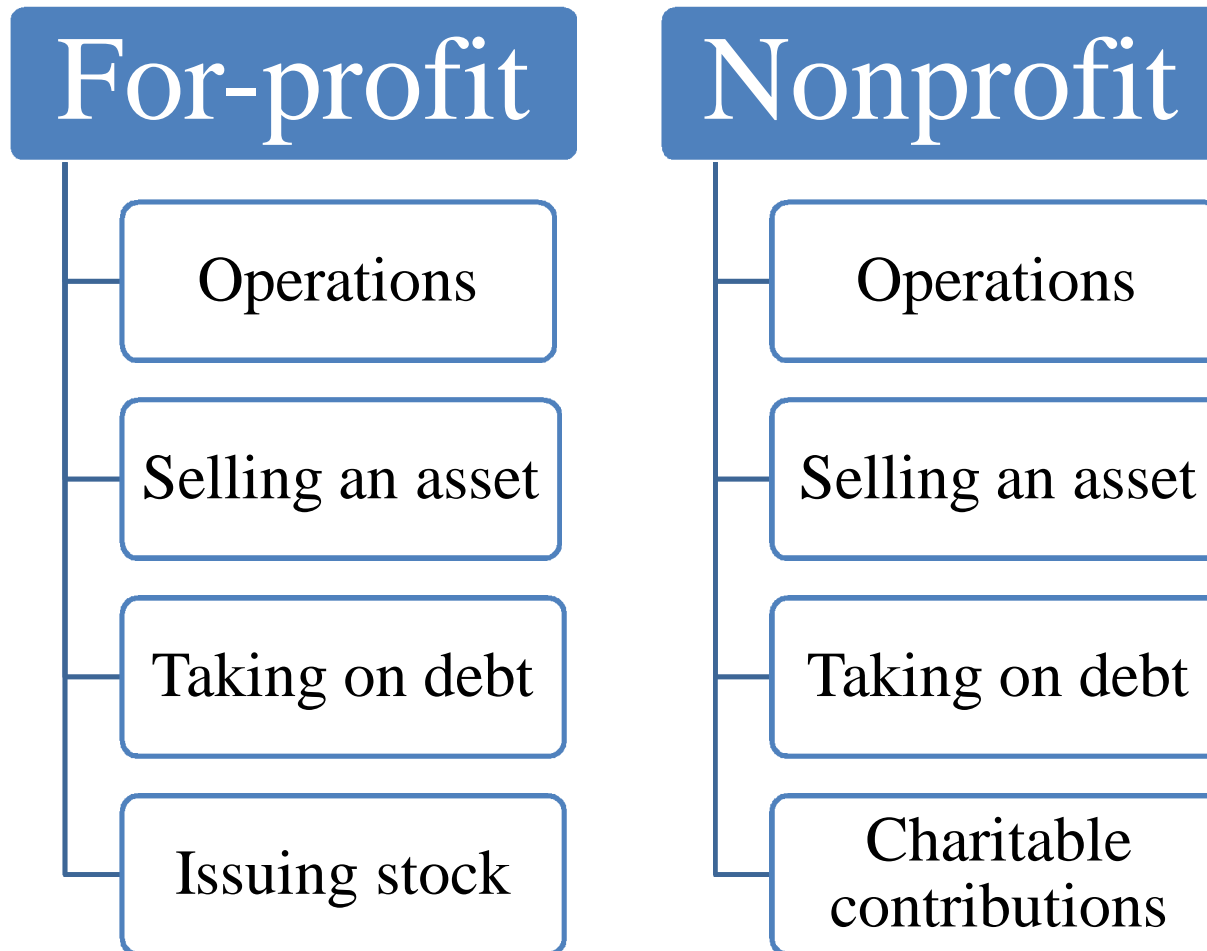
The Nonprofit Handbook: Everything You Need to Know to Start and Run Your Nonprofit Organization (Paperback), Gary M. Grobman, White Hat Communications, 2008.

“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







Making Money from Operations

Raising Equity and Debt

Reputational Risk

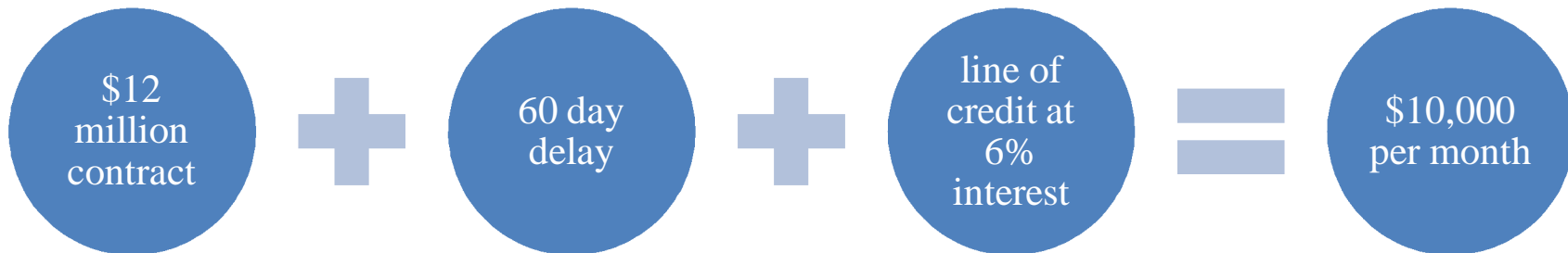
Charitable Contributions

Making Money from Operations

- Developer fees
- Property management fees
- Service contracts
- Property cash flow

Making Money from Operations

- Service contract reimbursement delays



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.

Raising Equity and Debt

- 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

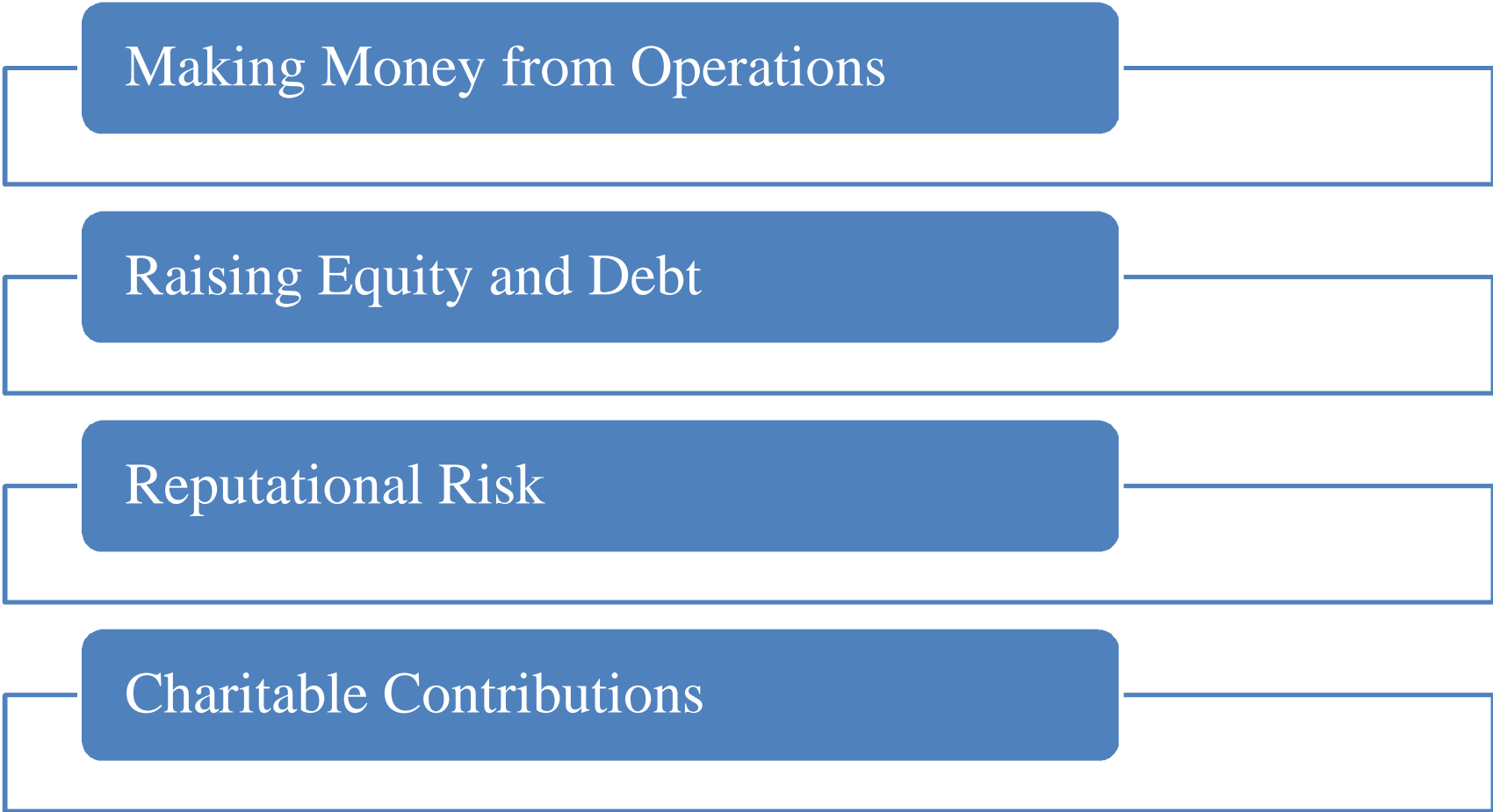
- Selling properties
 - Limited value of assets
 - Reputation
 - Recommendation

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.

Raising Equity and Debt

- Refinancing

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



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.

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.

- www.EnterpriseCommunity.org/Strengthen
- Questions?



www.EnterpriseCommunity.org | www.EnterpriseCommunity.com

