

# Nonprofit Financial Managers

A Resource for the areas of Finance, IT, Human Resources, and Office/Facilities Management

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For information, go to [npfm.org](http://npfm.org), or contact Mitzi Fennel at 617-547-1063 x235 or Jessica Zander at 617-956-0215

## **Mark Your Calendars**

All of our meetings take place on the last **THURSDAY** of each month. **No pre-registration required.** Upcoming dates:

- **March 28: Meet the Regulators! MA AG's Public Charities Division**
- **April 25: Compensation Strategies on a Tight Budget**

## **NPFM Membership Information**

The annual membership fee of \$100 covers monthly mailings and other operating expenses. The membership period is from September to August. A part-year membership for \$60 is offered for those joining after January 1, which covers membership through August. Full-time students are welcome to join at any time without paying a fee.

In addition to attendance at monthly meetings, members receive a monthly newsletter and access to the NPFM e-mail forum. Lunch is provided for all attendees at meetings. There is a \$20 meeting fee for non-members, and since membership is by organization, there is no limit of individuals from any one organization who may attend the meetings.

## **RSVPs for the meetings are not required.**

For renewals or new membership fees, please make your check out to:  
Nonprofit Financial Managers  
C/O Child Care Resource Center  
130 Bishop Allen Drive  
Cambridge, MA 02139

Contact Mitzi Fennel at 617-547-1063, x235 for more information.

## **The Next Meeting**

**Topic: Hiring the Right Consultant**  
**Date: Thursday, February 28, 2013**  
**Location: United South End Settlements**  
**566 Columbus Ave., Boston**  
**Time: 12:00 PM – 1:30 PM**

## **Hiring the Right Consultant**

Too often nonprofits spend their scarce resources on consulting projects that do not answer the fundamental questions that need to be addressed. Ensuring you hire the best consultants for the specific job and get exactly what your organization needs for the money spent starts with understanding the needs of the organization and writing an effective RFP. Arshad Merchant, partner at Wellspring Consulting, will help you understand the elements for a useful RFP to set a consulting project on track for success and whether an RFP is always necessary.

## **Recap of January Meeting**

### **Nonprofit Starvation Cycle**

Amy Markham, from the Bridgespan Group, a consulting and strategic planning company in Boston, gave a presentation about The Nonprofit Starvation Cycle. The cycle starts with funders' unrealistic expectations about how much running a nonprofit costs and results in nonprofits misrepresenting costs while skimping on vital functions. Overhead and its role in enabling—or, in the view of some, limiting—social impact has gotten much attention recently. The starvation cycle dangerously undermines nonprofits' ability to deliver on their missions. Amy's presentation focused on ways to make sense of recent developments—both good and bad—and sug-

gested ways of turning a vicious cycle into a virtuous one.

According to Bridgespan, there is not a lot of deep conversation going on between the nonprofit sector and funders about the importance of overhead expenses to an agency's operations. Overhead expenses fund high quality leadership, technology, operating systems, data collection, and facilities, all vital to an agency's operations. A broad definition of overhead includes: fundraising, occupancy, performance measurements, accounting, human resource management, training, and IT. We don't judge for-profit private sector companies by the size of their overhead; we judge them by how productive and profitable they are. Yet we do not apply the same standard to nonprofit financial management. The Service industry average overhead rate is 34%, but most funders expect nonprofit agencies to operate or report at a 10 to 20% level. The pressure to conform to this unrealistic standard in order to placate funders leads many nonprofit to under report their overhead expenses/rate or to actually spend much less than needed on overhead expenses – leading to the starvation cycle.

According to a recent survey, more than one half of funders expect nonprofits to operate on an overhead rate of less than 20%. More funders consider the level of the overhead rate to be more important than actual successful program results. Yet, 80% of foundations state that they realize that they do not provide enough funding to cover adequate and sustainable overhead expenditures. The government also expects an unrealistically low overhead rate from the nonprofit agencies that it funds. The industry norm that is expected is a maximum of 20%, which leads to pressure on nonprofit to conform. This leads to widespread under-reporting of and underinvestment in vital overhead functions by the sector. A total of 37% of nonprofits in an analysis of 220,000 990's reported that they spent no money on fundraising activities during the year. This seems unlikely to be possible.

Actual overhead often differs from what many nonprofits report, which can lead to: 1) lack of accountability and standardization of nonprofit reporting; 2) lack of infrastructure and systems; 3) tacit support of misleading reporting by multiple players; and 4) lack of consequences for misreporting. Underinvestment in overhead hampers the impact of your programs – you are less capable of reporting on your clients and the outcomes of your programs.

It is very important to know your true overhead costs so that management can make informed and intelligent decisions about their organization's financial position and the fiscal viability of its programs. At the very least, internal financial reports must be clear and accurate with respect to overhead expense. It is important to be able to know the true cost of operating a program with and without allocated overhead expenses in order to make informed decisions about whether to spin up or shut down particular programs, if necessary. Does the program bear its fully loaded cost? Does it contribute to the operating margin of the agency?

There are two ways of financially evaluating your programs: by functional analysis and by true cost analysis. Functional analysis groups costs by functional area, assigns only direct costs to programs, and measures the financial status of a program by its gross contribution (program revenue minus program costs).

True cost analysis analyzes programs by the following measures: costs are grouped by service offering; direct and indirect costs are assigned to programs; a focus is directed at key cost drivers. This allows measurement of the financial viability of the program by its net contribution (restricted program revenue less direct and indirect program costs combined). Key cost drivers can be: various ratios of staff to participants; level of "dosage of a service"; the target number of participant served and outcome to achieve; and where revenue comes from and under what restrictions. You need to examine your programs both in theory and in actual practice. Compare your targets with actual performance and outcomes.

In order to end or at least mitigate the Starvation Cycle, both funders and nonprofits must be proactive. Funders can shift to a focus on outcomes, be honest about what it takes to achieve outcomes, provide general operating support, and pay a fair share of overhead. Nonprofits should accurately report the true overhead rate to their Board and funders should ask "where are we underinvesting?" and educate donors on the importance of reasonable level of overhead expenditures for an agency to operate fairly and effectively.

### ***Job Openings...***

The NPFM group has a section on their website for job postings. Check out our website at [www.npfm.org](http://www.npfm.org)

for a complete list of jobs. Contact David Richardson at [dr44@verizon.net](mailto:dr44@verizon.net) with questions or postings.

### ***NPFM E-mail Forum***

One of the benefits of membership in NPFM is a subscription to our e-mail listserv. We encourage members to post questions, announcements and new developments in finance and administration. All new members who provide e-mail addresses are automatically subscribed. To post messages send to [npfm@topica.com](mailto:npfm@topica.com). If your membership is current and you do not have access to the listserv, please contact Karen Kelley Gill, at [kgill@cedac.org](mailto:kgill@cedac.org).

### ***NPFM Steering Committee***

The Steering Committee consists of several members who are responsible for the meeting topics, speakers, and other details surrounding the group. If you are interested in joining the steering committee, or in submitting ideas for future sessions, please contact any of the existing members, by email or in person at a meeting.