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Profitable Solutions for Nonprofits

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Capacity building: Focus on your strengths, not your weaknesses

The economic crisis may have your nonprofit scrambling to find funding. But equally important is making *internal* adjustments that can boost your ability to fulfill your long-term mission. Capacity building is one way your organization can increase its odds of doing just that. But, as it turns out, a traditional approach may not be the most effective route.

Why you should consider the process

The National Council of Nonprofits defines capacity building as the "many different types of activities that are all designed to improve and enhance a nonprofit's ability to achieve its mission and sustain itself over time." It refers to whatever a particular organization needs to reach the next level of maturity — whether operational, financial, programmatic or organizational.

For-profit organizations regularly engage in such macro-level initiatives, but nonprofits tend to take more of a project-level perspective. The result can be instability that undermines the overall organization. The focus lurches from one project to another. Problems in other areas can fly under the radar.

Capacity building gives nonprofits the opportunity to strengthen their organizational infrastructure, including facilities, equipment or functions such as payroll and accounting. For example, you might target your management and governance capacity by formulating a succession plan. Or, you could expand your staff capacity through professional development. Other goals could include establishing a strategic plan, initiating more productive fundraising or serving clients more efficiently.

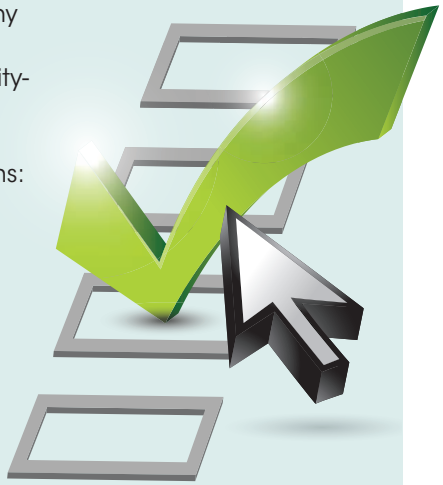
Who should join in

Whatever the goal, it's critical that you include more than your board or executive leadership in the capacity-building process. They might start the ball rolling, but involving lower-level staff will help gain buy-in from the entire organization. It also may be advisable to bring in some outside consultants with experience conducting this exercise for nonprofits. They can save you time and keep you heading in the right direction.

Now, when resources are scarce, devoting funding to capacity building might seem like an extravagance. But you need to think about the long term, even when short-term issues understandably consume much of your attention. Keep in mind that grant makers might be willing to give you financial support during these difficult times.

Getting the most out of the self-assessment

Self-assessment is a foundational element of capacity building, and many tools (including some that are free) are available for the task. One size doesn't fit all, though. Selecting the wrong tool can sink the entire capacity-building exercise.



Consider these factors when evaluating different assessment mechanisms:

- Your organization's size and structure,
- The tool's language and terminology — Will users understand it?,
- The amount of time required for users to complete the assessment,
- Question formats (for example, yes-no, rating scales or open-ended),
- Time and resources you can devote to the process, and
- Whether you need an outside facilitator.

Bear in mind, too, that not all assessment tools are even designed for capacity building. A tool might, for example, be intended for funders to assess grantees or other purposes. Choose carefully.

Where you could go wrong

Capacity building typically begins with designated stakeholders using one of many available tools for identifying an organization's strengths and weaknesses in a variety of capacities. You might, for example, launch client surveys or structured self-assessments where various capacities are rated on a scale of 1 to 5. (See "Getting the most out of the self-assessment" above.)

Say an organization determines that its strengths include leadership from its frontline workers, and its weaknesses include outcome measurement. From there, the next logical step is to devise methods to mitigate the weaknesses, right? Not necessarily, at least according to research published in the February 2020 issue of *Stanford Social Innovation Review (SSIR)*. The authors say that, while that approach can indeed make weaknesses (for example, poor outcome measurement) less glaring two years down the road, the organization's impact on its targeted populations or issues likely won't have grown much.

They endorse a strengths- or assets-based route to capacity building. Instead of focusing on the remedying of weaknesses, organizations should leverage their strengths. It's not the best choice to work at improving capacities that are peripheral to your mission and operations, such as accounting, which can be more effectively outsourced. You'll likely gain far more by pushing your core strengths "off the charts" and applying those strengths to address weaknesses in the ways that best serve your needs.

To illustrate, consider an organization that found that leadership by its frontline employees is a core strength — an actual example discussed in the *SSIR* article. The nonprofit built on that strength by bringing worker-leaders into its high-level strategic planning. Their in-depth knowledge of day-to-day activities helped shape the organization's vision going forward.

Look here

It's always admirable when an organization is open to identifying and working on its weaknesses. But remedying inadequacies usually won't prove as productive as taking measures to pump up your strengths. Get a better "return on investment" by enhancing the assets you already have. ■

Donor-advised funds

How they work and how to land them

Donor-advised funds (DAFs) have shown consistent growth over the last nine years, according to the *2019 Donor-Advised Fund Report* from the National Philanthropic Trust (NPT). NPT data from nearly 1,000 charities shows that DAFs grew in all key areas, including in the number of individual funds and total grant dollars awarded to charitable organizations. Data for the NPT's 2020 report is currently being collected.

Although they're popular, DAFs aren't without critics. Some don't like the fact that many DAFs are allowed to stockpile funds indefinitely without making distributions. After all, most nonprofits need funds to help people *now*, during the COVID-19 pandemic and related recession. So, before your charity applies for DAF funds, it's a good idea to learn about potential caveats.

Donors get an attractive deduction

DAFs enable donors to contribute assets, including cash, securities and real estate, to an account controlled by a "sponsoring organization." They receive an immediate tax deduction up to 60% of their adjusted gross income in exchange for their irrevocable gifts.

There are roughly 1,000 sponsoring DAF organizations in the nation. Most fall into one of two categories: 1) community foundations and 2) charitable wings of investment-service companies, such as Vanguard Charitable and Schwab Charitable. A smaller group of sponsors focus on single issues or charitable grantees. All types generally invest and manage DAF assets, screen charities that will receive grants, and make distributions. But policies vary widely by sponsor about issues such as the types of assets accepted, how funds are invested and how often donors must request distributions.

Sponsors play a key role

Donors make grant recommendations, and although sponsoring organizations aren't legally required to honor them, they almost always do.

But it's worth noting that sponsors play a major role in which organizations ultimately receive grants. Sponsors often suggest charities to donors that match their charitable criteria.

Sponsors also may step in when donors fail to request distributions. For example, if Fidelity Charitable donors don't name grantees after two years, Fidelity names charities for them. But not all sponsoring organizations have such policies. And some critics contend that both donors and sponsoring organizations have incentives to hold onto DAF money as long as possible.

Communication is crucial

To encourage sponsoring organizations to direct gifts to your charity, prioritize these relationships. Let community foundations know that you welcome such gifts and are equipped to handle them. And as your mission and programming evolve, keep sponsors up to date so they can accurately match your organization with donor interests.

Because some DAFs are anonymous, building relationships with potential donors can be a little harder. But if you've already received a DAF grant, you likely found the name of the fund in the gift letter. Be sure to send the donor a thank-you note (via the sponsoring organization, if necessary) and indicate your interest in receiving future gifts or being named beneficiary of a trust. Also put prominent notices on your website, including a link to DAF Direct (dafdirect.org), on social media pages and in emails to donors. And think about featuring DAF supporters in your publications.

There are dos and don'ts

The IRS hasn't issued much guidance about DAFs, so tread carefully when accepting these gifts. For example, there's some uncertainty about whether DAF funds can be used to fulfill pledges. The IRS has stated that DAF funds can be used for this purpose. But donors can't take additional tax deductions for them, and sponsoring organizations aren't allowed to tell grantees that a gift is being issued to fulfill a pledge.

Also, nonprofits shouldn't accept DAF funds if the donor will receive something of value in return, such as dinner or entertainment. For this reason, don't let donors use DAF gifts to buy event tickets.

Here to stay

The growth trend in DAFs indicates that this source of funding is likely to increase and your charity would be wise to access it. Sources such as the NPT report can help you. ■

Pandemic, civil unrest spotlight potential of mutual aid

The COVID-19 pandemic and the response to racial justice issues have brought greater attention to mutual aid. Although the concept is nothing new, its emergence in recent times highlights the possibility that nonprofits can partner on mutual aid projects to enhance their mission- and cost-effectiveness when resources are tight. With the need for services so high, it's worth exploring.

Mutual aid 101

Mutual aid rests on the notion that aid recipients should also make some type of contribution when possible — for example, food cooperatives where customers volunteer in the stores or lending circles where people lend each other money at low or zero interest. Mutual aid recognizes that everyone has needs that deserve to be met, as well as something to offer others. Solidarity over charity is emphasized.

Mutual aid projects have been around for centuries, dating as far back as the 1700s. They've been particularly active — and essential — in minority and immigrant communities. Historically, members have pitched in money to support widows, cover burial expenses and extend personal or business loans that borrowers couldn't obtain from banks.

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2020 spark

In 2020, mutual aid groups have stepped up their efforts, in part because the traditional charity models simply can't meet the overwhelming need. COVID-19, for example, has left millions of previously employed people without paychecks. Those who were already unemployed or at the margins of society generally didn't qualify for temporary benefits from the federal government, causing them to fall further behind and into greater risk.

New mutual aid groups have sprung up to help quickly and directly fill the gaps by creating two-way commitments. Some groups, for example, offer cash assistance in exchange for recipients checking in on the elderly or ill, running errands or locating scarce supplies, such as personal protective equipment.

After George Floyd's death in Minneapolis in late May 2020, Minnesota's *Star Tribune* reported on a surge of mutual aid groups in the Twin Cities. When protests led to fires and chaos, one woman started a Facebook page to build a mutual aid network of neighbors directly helping people in need of everything from food to cash. As of late summer, the group boasted almost 20,000 members. It handles requests to find low-cost eyeglasses and car repairs, air mattresses and coolers for tent communities, and cash for families who need rent, diapers and medicine.

Opportunities for nonprofits

Some nonprofits already have collaborated with mutual aid groups to compound their power. In North Carolina, for example, a YWCA and two foundations joined forces to establish a fund for grassroots mutual aid groups working in Greensboro neighborhoods. The YWCA has provided operational support, and all three have generated funding.

The website for the nonprofit Massachusetts Jobs with Justice features links to mutual aid networks across the state. On the other side of the nation, San Francisco public radio and TV station KQED has assembled a list of mutual aid funds that distribute emergency grants to artists, creative professionals and freelancers dealing with financial hardships. And AARP has posted a map showing local mutual aid groups across the country that might be of interest to seniors.

Allies in the trenches

Rather than seeing mutual aid groups as competition, nonprofits should consider them valuable tools for addressing growing crises at a time when many more formal organizations are strapped for cash and looking at creative solutions for growing demand. By teaming with mutual aid groups, nonprofits gain access to diverse volunteers who provide a wide range of perspectives and experiences. ■

NEWSBYTES

Struggle ensues to recruit young diverse boards

Although 95% of nonprofits are actively recruiting to diversify their governing boards, 87% have struggled to find the right recruitment channels to do so. And more than half (51%) don't think their boards reflect the communities they serve.

These are some of the more striking findings from an August 2020 survey conducted by New York City–based CariClub, which works as a matchmaker for young professionals and nonprofit boards of directors. It surveyed 1,000 nonprofits across the nation to better understand the lack of diverse representation on nonprofit boards.

Respondents also reported that the least represented groups on nonprofit boards are Hispanic or Latino (77% lacked representation on governing boards and 74% on associate boards), Black or African American (72% on governing boards and 68% on associate boards) and Asian (58% on governing boards and 50% on associate boards). ■

How many nonprofits benefited from the PPP?

Did your organization receive a loan through the federal government's Paycheck Protection Program (PPP)? If so, you're one of many nonprofits that did.

The Johnson Center for Philanthropy at Grand Valley State University crunched the numbers to determine how many eligible nonprofits benefited from the PPP. Among other things, the researchers found that nearly 182,000 nonprofits received a PPP loan, out of the nearly 4.9 million total loans made. But that figure represents only 40% of nonprofits that were eligible to receive loans.

That figure is a national average, though. Certain states fared better than others — for example, organizations in South Dakota, Alabama, Kansas, Nebraska, Oklahoma and Mississippi. In each of those states, more than 55% of all eligible nonprofits received PPP loans. Utah, Idaho, Arizona, Montana and California ranked at the other end of the spectrum, with significantly fewer eligible nonprofits receiving funds. ■

Self-insured organizations get unemployment relief

A new law extends much-needed relief to those nonprofits that reimburse their states for unemployment benefits paid to former employees, rather than paying unemployment taxes. The Protecting Nonprofits from Catastrophic Cash Flow Strain Act amends the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

Under the CARES Act, self-insured nonprofits qualify for reimbursement of 50% of the costs incurred from March 13, 2020, through December 31, 2020, to pay unemployment benefits to employees laid off or furloughed due to COVID-19. The U.S. Department of Labor had issued guidance that required self-insured nonprofits to immediately pay 100% of the costs of unemployment benefits and then wait to be repaid half.

The new law overrides that guidance. It provides that nonprofits are required to provide only 50% in upfront payments. ■

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Lessons Learned from COVID-19

Like so many of the nonprofits we serve, providing resources to our clients is of the utmost importance to LaPorte. Our desire to share our knowledge or facilitate a valued exchange across our nonprofit clients to keep leaders abreast of the issues that impact them led to the creation of our annual education series. In addition to that series, we share knowledge through website blogs, industry association presentations, and other forums.

As the challenges of the COVID-19 pandemic have unfolded, we wanted to, once again, help support the nonprofit community with substantive guidance. Earlier this year, LaPorte focused on educating nonprofits on the economic relief opportunities including those in the CARES Act. Now seven months into the pandemic, we wanted to facilitate a panel discussion based on the common challenges nonprofits have experienced, the best practices developed to address those challenges, and the pressing needs that remain.

"We want to understand how our nonprofit clients are navigating this very challenging year," said Dawn Laborie, CPA, and co-leader of LaPorte's Nonprofit Industry Group. "We hope to distill from that some key best practices to share in order to help others in the industry who may face similar situations."

To develop our understanding, we issued a brief survey, *Lessons Learned and Best Practices for Nonprofits During COVID-19*, that invited participants to share their top challenges and how their organizations have met those challenges. On the latter, respondents were asked to identify specific best practice examples that might be helpful to other area nonprofits. Some specific areas of interest: disaster budgeting amidst uncertainty; successful or innovative virtual fundraisers; achieving or adapting your mission; leveraging technology; keeping your story front and center with stakeholders; outreach to large donors; leveraging PPP or available funding; use of reserves or "rainy day" funds; and given remote working the re-evaluation of current/future office space needs.

LaPorte is reaching out now to respondents so that we might learn more around the best practices for sharing in our webcast slated for early December. For questions or to learn more about LaPorte's services to nonprofit organizations, contact LaPorte's Nonprofit Industry Group co-leaders Dawn Laborie, CPA, at dlaborie@laporte.com and Jack Wiles, CPA, at jwiles@laporte.com.