

# NFP

**Gaining Access to Credit  
in Tough Economic Times**

**Global Consumers Value  
Social Responsibility**

## How Sustainable Is Your Organization?

In recent years, the term “sustainability” has come to be associated with the environment, as individuals discuss how to protect the earth’s ecosystems so they remain diverse and productive far into the future. But, the concept of sustainability can also be applied to nonprofits, as their leaders challenge themselves to build organizations that not only fulfill their current mission, but also have the capacity to endure over the long term, as conditions change and the needs of the community evolve.

There are many elements that go into the organizational stability of a nonprofit, including an experienced board and a management team whose members are committed to the organization’s mission. Securing funding for the organization and attracting leadership talent are also important to continued existence, but an organization that focuses too much on recruitment,

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## Gaining Access to Credit in Tough Economic Times

As a result of the recent economic downturn, many traditional sources of funding and credit that nonprofits have come to rely on have been limited, even as demand for services has grown. If you are seeking financing to operate or expand your organization, you may have to develop new strategies for gaining access to credit and raising capital. With a little innovation and perseverance, your organization may be able to obtain the short-term credit and long-term financing it needs.

Before seeking to borrow, it is important to determine precisely how much financing your organization requires, how the funds will be spent, and when the money can be repaid. Start by reviewing your current operations, looking for ways to trim costs or increase revenues. Revise your strategic plan to reflect any changes in your needs. Potential lenders may want to see evidence that your organization is being run efficiently and that market conditions justify additional expenditures. In addition, be aware of the level of risk your organization is taking on, and consider whether the amount of funding may jeopardize your organization. If an analysis of your situation reveals that its debt-to-equity ratio is already high, or that it has been running persistent deficits, taking out additional loans or lines of credit could expose the organization to extensive risk.

If, however, your organization has a favorable debt-to-equity ratio, you may be able to obtain additional capital through loans, possibly from a variety of sources. If you wish to borrow money to cover a temporary shortfall or to expand operations, start by approaching your current bank. If the amount of money your bank is prepared to lend is insufficient, investigate alternatives. Because lending practices vary, it is worth applying for loans from a number of banks, ranging from large institutions to smaller community banks or credit unions, which may have been less affected by the economic downturn. In some cases, you may have to negotiate loans on less favorable terms. In addition to paying higher interest rates, you may be required to secure lines of credit against your assets.

Banks are not the only sources of lending open to nonprofits. In some cases, an individual

or a group of donors or board members may be willing to lend money to the organization in the form of a secured or an unsecured loan. For these loans, it is advised that legal documents stating the terms of the loan are prepared, approved by the board, and signed by both parties. Donors or board members may also assist the organization in borrowing from a bank by guaranteeing the loan. If larger amounts are involved, your organization may want to consider issuing bonds to donors or board members in exchange for the funds lent.

To cover short-term needs, your organization may want to consider borrowing from a nonprofit loan fund. These funds, which are generally supported by private foundations and for-profit businesses, usually focus on providing bridge loans to smaller nonprofits within a certain geographical area. For example, the Nonprofits Assistance Fund of Minnesota provides qualifying organizations based in the state with loans of between \$5,000 and \$500,000. Nonprofits can borrow money from the fund to stabilize their cash flow, expand programs, renovate their facilities, or purchase new equipment. Some state and regional loan funds provide more substantial amounts for certain kinds of projects, such as affordable housing, community facilities, human services, and economic development. While collateral for these loans is generally required, the terms may be more flexible than those of a bank.

Unless the need for cash is urgent, you may want to try to cover at least a portion of your organization's requirements through fundraising. Bringing in new gifts or securing new grants can improve your debt-to-equity ratio, thus increasing your chances of obtaining a bank loan at an affordable interest rate. Having secured additional lines of credit, your organization may, in turn, become more attractive to potential donors. In the current economic environment, however, patience and persistence may be necessary. Taking the time to investigate your options and network with potential sources of financing can help you develop an effective strategy for meeting your financing goals. ♦

## HOW SUSTAINABLE IS YOUR ORGANIZATION?

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fundraising, and the crunching of data may run the risk of alienating its clients, and even potential donors and volunteers.

### *Evaluating Sustainability*

With this in mind, an evaluation of your organization's sustainability may start with a seemingly simple question: Why does your organization exist? For most nonprofits, the answer will be to serve both a specific set of clients and the community as a whole. While this may seem obvious, many not-for-profit leaders lose sight of this basic principle, choosing instead to focus on increasing their organization's "market share" and competing with similar groups for grants and gifts. These battles may be fought at the expense of the very people the organization was established to serve.

Thus, sustainability often means more than just securing the bottom line. In many cases, it involves constructing alliances with other groups that serve the same community, with the goal of providing the best services possible. It may also mean reaching out to other charities and businesses with whom your organization has not traditionally partnered. Creating broad, varied networks can be extremely useful if your organization needs help from beyond your usual set of supporters. This may, for example, occur if the needs of your community shift and you require additional resources to develop new programs.

### *Creating a Community*

Just as the preservation of the earth's ecosystem depends on natural processes working in harmony, the survival and well-being of a community relies on the successful collaboration of the groups and individuals who make up the city or town. Rather than treating financial contributions as scarce resources to be fought over at the expense of other nonprofits, think about how your organization can promote the resilience of the community as a whole, including other stakeholders who are integral to your healthy functioning. Then, when your organization requires assistance, the community may be more likely to lend a helping hand.

Concretely, this may mean that, when funding through the usual channels is tight and your organization is unsure about the future of its programs, you can turn to your allies in the community for support. These potential partners might include other nonprofits and members of the business community, churches, and other clubs and associations. Consulting with a wide range of groups may lead to the development of unconventional solutions to problems.



Further, other groups or businesses with excess capacity may offer to take over tasks that are vital to maintaining your programs on a short- or long-term basis, such as transporting goods or repairing a leaky roof. Partners with political connections can lobby for the interests of your organization at council meetings and in the legislature.

### *Preparing for the Future*

Even if the assistance provided is temporary, the relationships that are forged through working together to achieve common goals can help to ensure that your organization is supported and sustained far into the future. ♦

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## Global Consumers Value Social Responsibility

No longer content to buy from companies that merely contribute to good causes, consumers in the United States and around the world increasingly expect corporations to make accepting responsibility for society and the environment an integral part of their business strategies, according to a 2010 survey by public relations firm Edelman.

The fourth annual survey, which seeks to explore consumer attitudes around social purpose, included responses from more than 7,000 adults in 13 countries. Results showed that 87% of Americans believe that businesses should place at least equal weight on society's interests as those of business, and 62% think corporations should integrate good causes into their day-to-day business activities. Moreover, 74% believe brands and consumers could do more to support good causes by working together.

The survey also found that consumers in emerging markets, like Brazil, Mexico, China, and India, have even higher expectations than Americans. An average of 8 in 10 respondents in these countries (87% in Brazil, 85% in Mexico, and 79% in China and India) expect brands to do something to support a good cause, compared to 63% of respondents from the United States.

“Purpose must now be engrained into the core of a company or brand's proposition. It is no longer enough to slap a ribbon on a product. It must be authentic, long-term, and participatory,” said Carol Cone, managing director of brand and corporate citizenship at Edelman.

“Americans are seeking deeper involvement in social issues and expect brands and companies to provide various means of engagement,” Cone continued. “We call this the rise of the ‘citizen consumer’.” ✦