



## What are the core issues small nonprofits face?

And what can funders and nonprofits do to manage or solve these challenges? NFF has worked with nonprofits large and small for over 30 years. Post-recession, our work with smaller organizations has only reinforced some of our long-held observations about the conditions they face. Below is our most concise advice for nonprofits and their supporters alike.

### What Nonprofits Can Do...

Spend time seeking and applying for capacity grants, even small ones, if they'll allow you to take care of deferred infrastructure needs.

Money makes programs possible. Devote time and resources to keep finances running well. If you don't have adequate resources, borrow financial management templates from a peer organization or bring on board or staff (or both!) with expertise in nonprofit finance.

Aim for operating surpluses, not just break-even. This money can be set aside to fund infrastructure and equipment, growth, program improvements, and more.

What type of board do you have? Does it primarily approve the budget and assist with fundraising? Or do its members volunteer significant labor and professional skills? Put in writing the function that your board is meant to serve, and revise expectations as your organization evolves.

investing in the enterprise is difficult for small nonprofits, which often run lean

financial understanding and capacity are necessities, not luxuries

surpluses are critical, particularly in difficult times

the roles of a small nonprofit's board members can vary

### What Funders Can Do...

A small grant can be meaningful to a small organization. Fund important capacity needs, which include things like financial reporting systems, development staff, and improved technology. Mission returns from these investments can be just as large as those from a program grant.

If you value your grantees' programs, make sure they have the financial tools and know-how to successfully manage their nonprofits. If they are lacking tools or expertise, help fund them—this is especially critical for those that rely on restricted government funding.

Embrace the idea that nonprofits should have surpluses, and don't penalize them or automatically reduce funding if they do.

Don't rush to judgment if a small nonprofit is not at 100% for board giving. Many small nonprofits incorporate professional expertise or other contributions from board members. Financial commitments can be especially challenging for former clients or low-income members.

## What Nonprofits Can Do...

## What Funders Can Do...

Embrace in-kind, but have a plan and budget for replacing volunteer labor or worn-out equipment and systems when necessary.

**in-kind donations are often key resources for small nonprofits—even for infrastructure**

Encourage your grantees to understand the useful life of donated equipment and develop a plan for replacing donated goods (such as computers) at the appropriate time. Indicate your willingness to fund these replacements when they come due.

Don't buy a facility if you can't support the capacity to manage it (e.g., can your Executive Director divert time from fundraising to deal with the boiler?). Depreciation, a non-cash item that accounts for the wear and tear on your building, must also be addressed; saving for future (or emergency) costs is critical.

**owning real estate can turn small nonprofits into full-time property managers**

Don't encourage grantees to purchase a property, even a cheap one, if managing it will overwhelm their staff. If a grantee owns a facility, help them create a building reserve. Solely funding urgent requests validates an "emergency only" approach to facility management.

Growth is not always good. Be wary of mission creep and imbalances that can come from tacking on new programs in an ad hoc fashion. Don't empower your grantwriter to make program tweaks just to increase the odds of getting a grant.

**sometimes, nonprofits will do anything for funding, even develop an entirely new program**

Fund what already works, rather than only offering funds for new or innovative approaches—especially when funding small, local organizations that have already identified and are filling a real need in their community.

A 'net grant' means considering the resources required for submission, future reporting and oversight when deciding whether to apply for a grant. Assess the full costs and benefits of the grant opportunity—don't be afraid to turn down funding if it doesn't cover full costs.

**it's time to embrace and apply the principle of 'net grants'**

When developing application and reporting requirements, make the administration commensurate with the grant size: a \$5,000 grant should come with different reporting expectations than a \$500,000 one. Consider adding funding to cover the organization's true 'net grant' administration costs.

Working capital is your cash on hand plus any line of credit. While it can be hard for small nonprofits to access lines of credit, explore all your options if it's appropriate for your situation. Reach out to banks—starting with the one holding your deposits—CDFIs, and your board/funder networks.

**working capital is crucial, especially if a nonprofit is primarily government-funded**

Consider the impact of payment timing on your grantees' cash flow. For many small nonprofits, when the check arrives is as critical as when the grant is awarded. Consider other ways to help small nonprofits with cash flow, such as making Program Related Investments or bridge loans.