Financial Literacy for the Long Term

Closing gaps in fiscal knowledge to strengthen nonprofits’ futures

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The Need to Know

How good are you with money? It’s a question that more nonprofits should ask themselves. Financial knowledge is vital to nonprofits’ ability to fulfill their missions, yet as a recent Center on Philanthropy study shows, many nonprofit professionals overestimate their financial skills.

This knowledge gap reminds us how much we still have to learn—individually and as a sector—about the myriad aspects of philanthropy. As research answers our questions, it also prompts new queries, such as those we address in this issue. What changes do nonprofits need to make in their approaches to financial management? What can donors and their financial advisors learn from patterns in million-dollar gifts? How can service clubs inspire international philanthropy?

The Center on Philanthropy is researching these topics and many others—part of our ongoing efforts to shed light on new aspects of philanthropy and uncover the information you must need to know.

Sincerely,

Patrick M. Rooney
Executive Director, The Center on Philanthropy at Indiana University

Center on Philanthropy Research Partners
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To ensure a strong future, nonprofits need to close the gaps in their fiscal knowledge.

Until recently, the financial focus of midsize nonprofits was simply to break even. That focus has shifted, changing the ways nonprofits operate and placing greater emphasis on nonprofits’ financial knowledge—and gaps in that knowledge.

Nearly two-thirds of midsize nonprofits—those with $1 million to $5 million in revenues—now strive for sustainability over mere subsistence, according to new research from the Center on Philanthropy at Indiana University. In a survey of more than 500 midsize nonprofits, the top two financial objectives cited by respondents were maintaining cash reserves and financial flexibility (38 percent) and assuring an annual surplus for down years (27 percent). Meanwhile, 24 percent wanted to break even.

“This is the first large-scale study to document a dramatic refocus in nonprofits’ financial priorities,” says John Zietlow, a professor of finance at Malone University in Canton, Ohio, who also teaches financial management for The Fund Raising School. “They’re looking past survival and working toward securing a position of financial strength, so they can better serve their mission, even during economic downtimes.”

Financial Literacy and Knowledge in the Nonprofit Sector was sponsored by The Moody’s Foundation to help nonprofits understand and increase their levels of financial knowledge and improve their effectiveness. The Center surveyed nonprofit professionals who are most responsible for their organizations’ overall fiscal management. Respondents represent a random sample of primarily human services nonprofits, as well as health, civic, environmental, arts, and education nonprofits.

The findings reveal not only a shift in financial priorities, but also an obligation for nonprofits to fortify their financial skills to better forecast future needs, navigate economic instability, and manage risk.

“The post-2008 world is a much tougher world for nonprofits,” says John Nelson, managing director of the public finance group for health care, higher education, and not-for-profits at Moody’s. “In an era of scarcity, nonprofits especially want to optimize their financial resources to efficiently and expeditiously serve their mission, sustain their organization, and preserve the good faith of their stakeholders.”

Mind the Gaps

To measure financial literacy, respondents were asked three basic financial questions, covering bond prices and interest rates, investment risk, and diversification. Although 76 percent of the financial managers said they were knowledgeable in financial principles, just over a third correctly answered all three questions.
“This disconnect suggests nonprofits need more help to identify gaps in their knowledge and build their financial capacity,” says Una Osili, director of research at the Center on Philanthropy.

For example, only one in two respondents correctly answered the question about bond prices and interest rates, key risk factors in both investing and financing.

Financial literacy increased with the number of courses taken in accounting, economics, operations, and financial management—making a compelling case for nonprofit professionals to seek supplemental education at universities or through online courses. Nearly 50 percent of respondents who had completed five or more courses answered all three questions correctly, versus 37 percent who had taken one or two classes.

Empower Your Board

Another way nonprofits can improve their financial performance is to recruit more financial expertise to their boards.

Two-thirds of nonprofits reported their boards were actively involved in financial accountability. In general, though, boards were less attuned to their organizations’ financial futures: 53 percent were highly involved with strategic planning, 43 percent with audit and risk management, and 27 percent with financial scenario planning.

“It’s too easy to get bogged down in financial reporting, compliance, and regulatory issues and undercut the strategic role of the board,” Zietlow says.

He suggests that nonprofits enlist one or two financially astute board members to train the others, so all can ask good questions, assess risks, develop policies, and guide financial planning.

Consider Your Cash Reserves

Even with more focus on financial planning, nearly 50 percent of midsize nonprofits had less than three months’ worth of cash reserves available for operating expenses. Just over a quarter had four to six months’ worth, while just under a quarter had more than seven months of cash reserves.

Unless a nonprofit has very consistent cash flows and reliable standby sources of funds, Zietlow advises building a cash reserve equal to three months of operating expenses.

Nelson agrees—but recognizes the conflict many nonprofits face in operating with a surplus. “You want to deliver every penny of service and value to your recipients, but economic uncertainty has awakened nonprofits to the need to operate at a surplus, if possible, to stabilize the organization and help it get through tough economic times,” he says.

Contact Una Osili at uosili@iupui.edu, John Zietlow at jzietlow@hotmail.com, and John Nelson at John.Nelson@moody.com. Read the report at www.philanthropy.iupui.edu/Research/docs/FinancialLiteracy2011.pdf.
The Pride of Lions: Service

Lions clubs members give and volunteer for a variety of causes.

With 1.35 million members in more than 200 countries, Lions Clubs International is the world’s largest service club organization. But just how service-oriented are its members? And what roles do women play in today’s Lions clubs?

To find out, the Center on Philanthropy conducted one of the first international surveys of a service club organization. Sponsored by CCS and Lions Clubs International, the study asked Lions clubs members in 12 countries about their charitable giving, volunteering, and club leadership.

“The survey findings affirm what we thought but haven’t had much data to confirm,” says Rebecca Daou, division manager for Lions Clubs International Foundation. “The research reveals that Lions members are connected to their communities in strong and diverse ways through action and engagement.”

Preliminary findings indicate that Lions clubs members give and volunteer at higher rates than the average population in all 12 countries surveyed. Worldwide, 92 percent of Lions donated to charitable causes in 2010, and 86 percent volunteered.

In the United States, 97 percent of Lions respondents donated and 97 percent volunteered. Among all Americans, the Center estimates that 66 percent gave; 26 percent volunteered, according to the Corporation for National and Community Service.

This commitment to service may be due in part to Lions’ greater levels of social trust. Lions clubs members in most of the countries surveyed trust people from other backgrounds significantly more than the general population does—and higher social trust indicates a greater likelihood of charitable giving.

“Are Lions more trusting in the first place, and so they join a Lions club? Or do they join a Lions club and become more trusting because they’re constantly exposed to global members and causes through an international service club?” asks Deborah Hirt, who coordinated the survey for the Center. “It’s probably some of both.”

The study found that Lions’ involvement extends to a wide range of local and international organizations—it’s not confined to club activities. “These are people who are potential donors and potential volunteers for other causes,” Hirt says.

These donors and volunteers include many women.

“The greatest area of membership growth in Lions Clubs International has been in women members,” Daou says. “One in four Lions clubs members is female, and that proportion continues to grow, especially in the developing world.”

Countries such as Nigeria, China, India, and Mexico are leading the growth in female members. In the United States, Lions’ female membership more than doubled between 1996 and 2011.

Women aren’t just joining; They play important roles in Lions clubs worldwide. The study found that male and female Lions donated and volunteered at roughly equal rates in most countries. And more than half of survey respondents said women and men participate equally in the leadership of their clubs.

“It shows that women are taking strong initiative in Lions clubs,” Hirt says. “They’re leaders, and their influence is strongly felt in Lions clubs in the United States and around the world.”

For other nonprofits seeking to involve service club members, Hirt recommends engaging men and women in ways ranging from offering hands-on service opportunities for entire clubs to connecting with individual members and leaders.

Nonprofits should also consider whether their cause aligns with a service club’s core values, and avoid making assumptions. Although Lions are well known for supporting sight programs and eye care, their service includes a variety of efforts, from youth programs to disaster relief.

“Don’t rule them out, thinking ‘Lions clubs are just focused on sight, they wouldn’t be interested in our work,’” Hirt says. “Go ahead, reach out, and form relationships.”

Contact Una Osili, director of research at the Center on Philanthropy, at uosili@iupui.edu and Nicole Brown at Nicole.Brown@lionsclubs.org.
For philanthropists planning gifts of $1 million or more, the questions of where, when, and why to give take on great significance. Now these donors and their advisors can turn to a new resource for help: the Million Dollar List, milliondollarlist.org.

Researched by the Center on Philanthropy at Indiana University, this free, searchable database offers donors and their financial advisors access to data and insights about gifts of $1 million and up. The list tracks publicly reported charitable gifts of $1 million or more by individuals, corporations, foundations, and other nonprofits since 2000 and will be updated periodically.

“The Million Dollar List is the most comprehensive resource on publicly reported gifts of this size,” says Patrick M. Rooney, the Center’s executive director. “One million dollars is a significant giving threshold for donors, so gaining a clear picture of where and how these gifts are made is an important step forward in the study of philanthropy.”

Previously, very little was known about these gifts, which have a unique ability to change lives and communities. Now, Rooney says, “donors and their advisors can see which organizations with causes matching their interests are receiving large gifts, where their peers are giving, and where there may be needs.”

Inform and Connect

The Million Dollar List can help foster collaboration around gifts and among donors, and helps donors and their advisors make informed and strategic decisions about giving.

Advisors can aid donors by searching for information on gifts by geography, dollar amount, type of charity, individual donor, organization name, or other customizable criteria.

Let’s say a couple in Colorado is concerned about the local environment, and they visit their financial advisor for advice. Using the Million Dollar List, the three of them could view million-dollar gifts to environmental causes in Colorado, which could give them a sense of whether the cause needs funding.
They could see the top recipient organizations, which might inspire the couple either to learn more about those organizations or to find other organizations to which they could make the first million-dollar gift.

They could also find out which other donors are working to improve the environment in Colorado, which could provide reassurance, raise a red flag, or prompt the discussion of pooling their gift with others for greater leverage.

Ellen Remmer, president of The Philanthropic Initiative (TPI), a leading nonprofit that advises donors on their giving, says, “The Million Dollar List lets donors scan the charitable landscape to see where there are gaps in funding by sector or location, to find philanthropic partners, and to discover where they can magnify their impact. It helps them develop their philanthropic style and strategy.”

The website, which is made possible by a grant from the Bill & Melinda Gates Foundation, also reveals trends and provides donors and advisors with context for these gifts.

For example, a higher percentage of individuals give “mega-gifts” of $50 million-plus than do corporations or foundations. However, about 70 percent of gifts from individuals were from people who made just one gift of $1 million or more, and nearly half of those made a single gift of less than $2 million.

The list also shows that million-dollar-plus gifts tend to be local: 63 percent of individuals’ gifts are given to organizations in the donor’s state of primary residence. And there’s a strong correlation between individuals’ million-dollar gifts and the stock market, with changes in the number of gifts and in the dollar amount of gifts closely following stock market trends.

**A Catalyst for Transparency**

“As donors get more engaged with their giving, they realize the power of being visible,” Remmer says. “They see themselves as leaders, as part of the solution they’re trying to accomplish with their giving—and with that they realize they have a role to play in influencing others. It’s important for them to stand up and be counted.”

The Million Dollar List offers a detailed look into an area of philanthropy that, until recently, was not well documented or understood. The more gifts that are included in the list, the more helpful it will become.

“Donors increasingly value transparency in philanthropy and are driving that trend,” says Una Osili, director of research at the Center on Philanthropy. “By providing information about their gifts to the Million Dollar List, they will encourage greater transparency among all those involved in charitable giving, increase opportunities to connect with other donors, and strengthen understanding of philanthropy.”

**MORE INFO**

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