**Amanda Nelson:** Good afternoon and welcome to today's webinar on “Exploring the New World of Nonprofit Financial Ratios: A Guide to Using Ratios as Financial Leverage.”

I am Amanda, Director of Engagement, and on behalf of Nonprofit Financial Commons, it’s our pleasure to have you all here with us today. Today's webinar is a little bit shorter than our usual webinars, just at an hour, but we will make sure that we leave enough time to answer all of your questions at the end of the webinar.

**Amanda Nelson:** Before we dive in, I just like to share a message from our generous sponsor, Blackbaud. Blackbaud is the world's leading cloud software company, powering social good. Blackbaud’s fund accounting solution, Financial Edge NXT, was purpose-built for the complex accounting and reporting needs of the social good sector. Whether your organization is primarily funded by grants, program service revenue, or fundraising efforts, Financial Edge NXT has the features you need to increase accountability, make data-driven decisions, and ensure compliance. You can contact fintechmarketingteam@Blackbaud.com for more information. Thank you again, Blackbaud, for sponsoring today's webinar.

**Amanda Nelson:** Now, I'd like to introduce our moderators for today, Wade Rogers and Dana Britto, who will be monitoring your questions in the chat and sharing them with the panelists during the Q&A section of the webinar. So, please feel free to drop any burning questions that you have into the chat, and also feel free to answer each other’s questions as you see fit. Joining our moderators are our distinguished panel of presenters, each bringing unique insights and expertise to today's discussion. Together, they will provide invaluable guidance on using financial ratios as a strategic tool for your nonprofit’s success.

**Amanda Nelson:** And before I hand it over to Ruth, I just have two other quick things to share. As I saw some people were already asking in the chat, the recording and the slides will be shared with everyone that is on the call today. And secondly, at the end of the webinar, we will share a link in the chat for donations. We invite you to consider making a donation to NFC that reflects the value you gained from today's webinar. We believe in the power of shared knowledge and community collaboration, and your contribution of any size, big or small, will enable us to continue to provide high quality resources and support to professionals like yourself. So, thank you in advance for your support.

**Amanda Nelson:** And now, without further ado, I hand over to Ruth McCambridge.

**Ruth McCambridge:** Hi. I'm so glad you're all here today, and welcome. Today’s topic is actually dear to my heart. I've spent a lot of time over the years measuring how well organizations that I'm managing are doing by means of ratios. Talking about it feels like it's just second nature to me. Luckily, we have a really brilliant panel who feels the same way, done much the same thing over time in a number of different contexts.

**Ruth McCambridge:** So, today's agenda basically is, we're gonna go over quickly: What are ratios and how do we use them? Then we're gonna talk about the ratio that has haunted the nonprofit sector, still haunts us to some extent — I call it the “sector specter.” A ratio that is broadly applicable, in LUNA, which actually is something that you can use across organizations with a lot of usefulness. And then we're gonna talk to Anthony Fullington. Anthony… he has been in financial leadership in a number of incredibly interesting organizations with a lot of complexity, and has been a board member and a manager in a number of others. He can talk about the use of ratios broadly across organizational size and type. And Dana Britto is going to be interviewing him. Then, we're gonna go to questions and answers. So, with that, that's our agenda for the day, and I'm just going to talk quickly about what a ratio is.

**Ruth McCambridge:** It’s pretty simple. A ratio is a mathematical comparison between two numbers. They're used in any number of contexts; you know, “This is a two-to-one mix between gin and tonic.” I don't know. You can use it in any number of ways. And you can express it in a number of ways. For instance, to show two ways to express it, if you’re looking at the degree to which your organization is reliant on a single source of revenue, you would look at your largest revenue stream divided by your annual revenue, and you come up with a percentage of reliance. Now, if that becomes larger over the years, you might want to worry about diversity — not in every case, but in some cases, you may want to keep an eye on the diversity of your funding. I do want to say, having said that, that diversity isn't the panacea that people promoted it as being over very many years. But you should know generally what kind of overreliance endangers your organization and if you want to keep track of that, this is the way to do it.

**Ruth McCambridge:** Next is, what are ratios good for? Ratios are really good as a leadership tool. They basically help you to focus people on one set of numbers rather than another, one quantitative relationship rather than another. So, you may have no need for an overreliance ratio. You may have the need for a ratio that shows you how many months of liquid dollars you have in your organization. You need to know, basically, which one of those is most important, or which group of those is most important in your organization. Once you know that, you can use those ratios to focus people on those issues. Now, God forbid you should figure that those are immutably the issues that you have to focus on over time, because the need for ratios, for one ratio or another, changes over the life of an organization and changes up with a number of other contextual changes to create a unified set of financial priorities. This goes with the one above.

**Ruth McCambridge:** The next one is to compare performance, and it compares your performance in a number of ways. These are three of the major ways that it can compare your performance, that you will see the ratios used, in different nonprofits. “Against your own goals.” So, we decided we were gonna bring in $120,000 in individual donations this year. We only brought in $85,000 in into individual donations. What does that mean? That's the ratio, basically. And then you say, well, how do we increase our success rate within that ratio. “Across time.” So, you look at your performance against last year against five years ago, and that's kind of your own trend monitoring. And “against ‘industry standards,’” which is — industry standards, basically, is the way your particular type of organization, as close as possible as you can get to your organization, actually functions. So, this is actually… an important piece for people to have is to understand how other organizations of their size, type, and context work, and what their ratios look like, and to what end. Because it allows you to measure yourself against what other people are doing, and then you can look more deeply into the strategies and tactics that they've taken on to get to improve your own statistics.

**Ruth McCambridge:** And the last is “to spark immediate action,” and I'm gonna get into this more in a minute by referencing some stuff that Steve Zimmerman has written about. I call it “ratios for people on the edge,” for “organizations on the edge.” But there's some cases in which you monitor ratios that you have to take immediate action on if they go out of whack. Okay? So, ratios for nonprofits, they really need to be chosen for your particular organization and where you are tactically and strategically at the moment.

**Ruth McCambridge:** So, I just talked about the ratios for nonprofits on the edge. Ratios for nonprofits building their individual donor bases: How much are we paying per how much in return? How many people do we have to contact to receive this many donations? How well did we retain donors, as opposed to develop new donors? All of those can be expressed in ratios, and if you are in an initiative to try to build your donor base, those are going to be very important to you.

**Ruth McCambridge:** By the way, in some cases, I want to know… I want to say that you will find that your numbers are not looking good, and that that is not a promising strategy or tactic for you to take. You may find that you don't want to beat a dead horse. (I’m sorry to the horses. I'm sorry, I shouldn't have said that.) But that's valuable information for you to have, if it’s just getting too expensive for you to raise money. Then there's ratios for nonprofits with very slow payables or receivables, and these are indicators of the cash flow state of the organization, and they can be integrated with other information to really give people a careful understanding of that.

**Ruth McCambridge:** We're gonna go to the next one. This is Steve Zimmerman, and… we are going to send you resources, and one of the resources we’re sending are three guides to commonly used nonprofit ratios, and this is one that I appreciate, because I have been in this situation many times in small organizations, which is that you begin to worry about, “How many payrolls can we meet in the near future with the amount of money that we see in the bank and headed in our direction?” It’s a very critical ratio for organizations that are small or suffering from really slow payables, and it's one of the things that keeps a lot of poor nonprofit leaders up at night. So, you're not alone, I will tell you. This was in a critical enough ratio that Steve Zimmerman listed it first in his list of ratios for nonprofits on the edge.

**Ruth McCambridge:** Going to the next one… okay. Restricted to unrestricted funds, I think not anywhere near enough organizations actually monitor for this very necessary ratio, which is how much of our money is really restricted to particular purposes, and how much do we have that we can use on things that we know we need. This is, for government-funded organizations, certain kinds of foundation-funded organizations, a very important ratio. First of all, it may indicate that you have a bigger problem in terms of not being able to pay full costs of program, and secondly, it may mean that you're using whatever unrestricted money that you have just to support your government contracts or some other contract that doesn't pay full costs. And that's when you have to look very carefully at whether that program actually means enough to you to do that. Next.

**Ruth McCambridge:** Okay, here’s… I’m gonna leave you with a case to ponder and then hand this over to Michael. Most of us know ratios, at least in part, through the constant discussion of overhead and whether or not we meet people's overhead expectations. That has been beaten into our heads for period of about half a century, enough so that it's become a kind of obsession. We know other people are monitoring us on it, therefore, we're monitoring ourselves. It causes all kinds of problems. Michael's gonna talk to you about this in a minute. But I just want to say that when you choose a ratio like that to focus on, you may actually be doing harm to yourself in other ways, because you're focusing so much of your attention on the one thing that you're ignoring something else. And there are a number of people who feel like that efficiency focus for nonprofits has damaged the focus on equity and justice. And if you actually look at some of it — the article that Michael's gonna refer to in his piece, on the overhead obsession, actually has a couple of really interesting graphs, and one of them shows — and this is horrible — that as people became obsessed with overhead, the salaries of CEOs went up while the wages of people on the line went down. So, understanding that just very, very simple — and you should look at the rest of the graphs in that in that article — it's at least worth concern that where we focus our obsession is what we care about. Okay, handing it over to you, Michael.

**Michael Anderson (he/him):** Thanks, Ruth. I'll pick up right there. Glad to be with you all today. It's really fun to see the comments and conversation happening in the chat as well, so thanks for your active participation. I'll just offer, by way of context, I lead a consulting practice where I work with all different kinds of nonprofit organizations in the areas of strategy development, business and financial planning, and partnership and merger exploration and negotiation. And in all those situations, we are often working with organizations and organizational leaders and connecting financial information to strategy conversations. So, John, if you get the next slide, please. This is a really simple framing that we’ll often offer for organizations to reflect on how you're currently using financial information within your nonprofit. These are not necessarily dichotomous lists, but we oftentimes build our financial reporting systems favoring one or the other of compliance measures or strategy measures.

**Michael Anderson (he/him):** So, a fundamental question we're often asking our clients, our nonprofit leaders, to think about is, what financial information should be used, in what ways and by what audiences? Or, as you heard Ruth speaking to, sometimes the metrics we use, the ratios we use, the way in which we present information, really establishes the bounds of a particular conversation and it sets our focus. So, sometimes, we'll even think about what deserves the prime real estate on that one-page financial dashboard report — are they compliance measures, and/or strategy measures, or some combination or mix of these different types of measures? On the strategy side, I'll highlight that we are oftentimes working with connecting. So, these conversations that are about organizational strategic planning, program planning, making decisions about our future direction, evaluating our impact and effectiveness, all too often happen absent financial information. And there's a great role for those wearing the hat of finance, playing any role in the financial leadership within your nonprofit organization, to make those connections much more explicit, and in large part that comes from how you use financial information. So, I would encourage all this to take a minute to think about how you're using information with your organization. Consider if perhaps you've over-indexed in a particular use of financial information. Because the way we present the financial information really sets the financial management culture within our organizations and what kind of conversations we're inviting people into with respect to financial information — whether or not we're over-indexing towards compliance measures or making those really explicit connections to organizational strategy.

**Michael Anderson (he/him):** So, speaking of over-indexing to unhelpful measures, as Ruth set us up for, I'm gonna talk a little bit more about some of the problems with the overhead ratio. One is, there really is no commonly used definition of the term “overhead” anywhere in the world, particularly within the nonprofit sector. I want to offer a really quick definition, because it's gonna set up some of the data we're gonna look at in a moment here. At the least, we can look to the IRS, and how it defines different expense classifications on the Form 990 instructions, so that's what informs how your organization completes and reports on its statement of functional expenses. And those three categories are program expenses, general and administrative expenses, and fundraising expenses. So, when we talk about the overhead ratio today, right now, we're really considering those non-program expenses. So, that second category of GNA, or general admin, and that third category of fundraising expenses. It’s everything that's not classified as “program.” And even if we're working from a common definition — which most of the time in the sector, when we're talking about overhead, whether it's in a grant application required field, or in conversations in your nonprofits’ board rooms — even if we are working from a common definition, then the problem becomes, there's inconsistent classifications and inconsistent calculations as to how folks are allocating expenses across program, general, administrative, and fundraising, and that is oftentimes largely driven by staff time allocations. In most of our business models, our primary or our largest expense item is personnel-related: salaries, wages, and benefits, those that really directly follow our employees. And I'll just say I have seen many, many dusty schedules with very stale assumptions on how our staff are spending their time.

**Michael Anderson (he/him):** All to say that when that's true, and that's the case, even if we're working from common definitions around “what is overhead” across organizations, the calculations are so inconsistent that, comparing overhead ratios org to org, or even comparing against some standard, becomes folly if we aren't calculating these ratios in consistent way.

**Michael Anderson (he/him):** The third point we'll make here is just how harmful it is to disincentivize spending on our core infrastructure, spending that might be classified on our 990 as general administrative expenses or fundraising expenses. So, I'll offer a few examples, ways of which I've seen organizations fall into that hazard with use of the overhead ratio. One example I'll offer is an organization, a community health center, community clinic, embarking on a capital campaign, where the capital campaign consultants, as they often do, make recommendations for how much of the executive director’s time should be dedicated to, and then therefore allocated to, the capital campaign as fundraising expense while they're in the capital campaign. This is an organization with a 4-million-dollar operating budget trying to raise 10 million dollars for new community facility that would expand access to their targeted patient population in their targeted geographic community — so hugely relevant for the mission, the work of this capital campaign. And the question in the boardroom, when receiving the recommendation from the capital campaign consultants, and as they were designing and committing to this campaign, was around how the ED should be using their time, and what about our overhead ratio? What about our fundraising expense ratio? How are we gonna explain it for these two years, when half the ED's time is on the capital campaign? Not whether or not it was the right decision, because I think that was consensus in the room, that it was.

**Michael Anderson (he/him):** Another example I'll give, and this happens all the time, is that organizations are disincentivized to invest in their operating infrastructure. So, the second example being a membership organization considering investing in a CRM software database, where they really wanted a system that could integrate with all their other software, minimize their staff time (or even potentially diminish need for future hires), and track their member engagement, which is a huge mission metric for them. But the software that they wanted that had all the features that they needed to both support strong operations and mission gain was a really considerable investment for the organization, and that organization did not make the choice to make that investment because they were concerned about their overhead ratio, and what it would look like to particular funders in this case if the overhead ratio became higher than it had been in the past.

**Michael Anderson (he/him):** So, a couple of real-life examples of what organizations face with real decisions around infrastructure investment, or investment in their future, in their ability to pursue their mission in their future, disincentivized because of this concern over overhead ratio.

**Michael Anderson (he/him):** So, we're going to go to a couple quick data points that come from some of the literature that Ruth just mentioned. There's been a series of articles, written largely by Jesse Lecy and Elizabeth Searing, on this topic. This one is 10 years old now: “The Anatomy of the Nonprofit Starvation Cycle.” But what's relevant here that I'll highlight is, there's black arrows that are pointing downward in this chart that show us, as Ruth mentioned, that decrease in overhead ratios over the period of 1998 to 2003, from nonprofit organizations of all sizes. These are medians, not averages. The averages are actually higher than the median overhead ratios in the 990 data that the authors used here. But the point is, since we started paying more attention to overhead ratios in the sector, overhead ratios have decreased in a meaningful way. And further — John, if you go to the next slide — larger organizations have lower overhead ratios. This is to — I think it's Mariko who made a comment in the chat at the top of the hour, there is data to support that comment in this finding. And it seems commonsensical that there are economies of scale at work with our nonprofit business model. So, this is research in in publication from just last year, from the same authors, Lecy, Searing, and Li, that found that an organization at a $550,000 budget size was generally the peak for the overhead ratio. So, for orgs in that $100,000 to $1 million annual budget size, especially organizations that are growing, it’s really inappropriate to apply a standard expectation for their overhead ratio given their size, their scale, and where they are in their organizational development cycle, if they're a growing org. So, there's an assumed value in that statement I just made that there is a meaningful place for smaller nonprofit organizations within our nonprofit ecosystem, and it's really inappropriate to apply and/or compare, use this overhead ratio in a comparative manner, or apply to a uniform standard.

**Michael Anderson (he/him):** So those are our few minutes that we're taking on covering the hazards of overhead ratio. And now John is going to talk more about ratios more useful and appropriate.

**John Summers:** Thanks, Michael. Yeah, I'm John Summers. I'm a managing director at BDO on our nonprofit and grantmaker advisory team. And yes, I'm going to talk a little bit about, again, a ratio that's hopefully not as controversial and actually more useful in actually managing your organization, which is what we at BDO refer to as LUNA, or liquid unrestricted net assets. And one of the questions that we often get from nonprofit leaders and board members, and even funders throughout the sector is, what's one metric, what’s the one metric we should be paying attention to in order to monitor finances? And my answer to that question is usually, first of all, don't just look at one metric, because any metric has limitations. You want a fuller picture, you want to, as Ruth said earlier, base it on your business model, on what's important to your organization. That said, if you're making a list of metrics to pay attention to, I would definitely recommend this one be included, because it's a very good snapshot of where your organization is financially at any given moment.

**John Summers:** So, this metric, LUNA, it's a measure of an organization's operating reserves, or financial reserves, which is what a nonprofit has on hand to manage basically all of the financial demands and contingencies that come up on a day-to-day or a year-to-year basis. So, whether it's making payroll next week, or repairing the roof next month, or making investments in future programming and enhancements that might carry you into the next few years, LUNA is what enables all of that to happen financially. So, what are the components of LUNA? Just going through the terms in the in the name — first, “liquid.” So, if you're looking at your balance sheet, you'll see a range of assets, like cash receivables, maybe investments, maybe property and equipment, maybe some others. What we're interested in are the ones that you can use to make payments in the reasonably near future. So, cash is obviously included. Receivables are included, assuming you'll collect on those soon. Investments are included if you can liquidate those within a few days or a couple of weeks. But if you own a building, that's not going to be available to make payments with. It's part of your net worth, and in theory it has financial value. But to realize that value would take a lot of time, and that's also not what your building is for. So that's not part of the calculation. We're really talking about liquid assets.

**John Summers:** Next, the “U,” unrestricted. So, when we get a grant, it's possible that those dollars are restricted by the donor for a particular purpose, or to be used in a particular timeframe. But for LUNA, we want money that we can determine the use for as organizational leaders. So, if the boiler breaks, we can't use dollars that are meant for the after-school program in 2025. Okay, so this metric, we're looking for unrestricted dollars.

**John Summers:** And finally, this is “NA,” net assets, which means we've already factored out what we owe. So, if I've got $1,000 in my checking account, and I owe $1,000 on my credit card. I don't actually have any net cash. It's all owed elsewhere. So, the LUNA metric tells us where we are, net of what we've committed to pay to others.

**John Summers:** And what makes LUNA a ratio — to go to Ruth’s earlier point, what are we dividing here — is that we generally want to see those dollars in terms of how much of our expenses it would cover. Just like you might think of having six months of expenses in your personal savings account, so your rent and your groceries and car payments, and so on. So with LUNA, it’s how many days or months — we typically use months — could we cover with our dollar amount? And does that feel like a comfortable amount?

**John Summers:** So, just a little more visually on how you would calculate this metric. We start with our unrestricted net assets, so, if you look at your balance sheet, you'll see a line called unrestricted net assets, or net assets without donor restriction. Or, if you're not using a nonprofit-specific accounting system —if you're not using Blackbaud, for example, shout out to our sponsors — you might see equity, that being listed as equity.

John Summers: So that's the starting point. Then you take out your illiquid net assets, so things like buildings, equipment. And then what you're left with is LUNA: liquid, unrestricted net assets. And then you divide that by your monthly operating expenses. Then you have LUNA expressed in a number of months. How long will that LUNA carry you, absent any additional revenue?

**John Summers:** So, for those of you who want to take your balance sheet or take your Form 990 and calculate that, I've got a slide here. I'm not going to go through in detail, but this should give you the actual pieces of either your financial statements or your Form 990 that you can use to calculate that LUNA number. And again, these slides will be distributed, so you can dig into it at that point.

**John Summers:** So where does LUNA come from? It unfortunately does not fall from the sky. You may have inherited some, if you're lucky enough to have come into an organization that already has some financial reserves. But for the most part, it's going to come from operating surpluses that you accrue over time. So where do those operating surpluses come from? This is one of the simplest answers that I'm able to give as a consultant. It's simple to describe. It's not necessarily so simple to realize. You have to have more revenue than expenses in order to generate a surplus, right? And specifically, I'm talking about unrestricted revenue. So that's how we get to unrestricted net assets. Right? We take our unrestricted revenue minus our expenses, and that's our surplus or deficit. So, more revenue than expenses is how we get to surplus, how we increase our LUNA.

**John Summers:** So, we sort of think of that when we're developing our budget each year, when you're managing your finances month to month, in general, we want to budget for a surplus in order to increase that LUNA for the future. Now, occasionally we might plan to go in the other direction if we've accumulated some LUNA and we're looking to invest that in something, or we're going to ride out a challenging year without cutting back on programming. Those are the luxuries that are available to us if we have some LUNA built up on the balance sheet. But in general, we want to build that up with surpluses from month to month and from year to year — and again, easier said than done. But that's the theory of how we get there.

**John Summers:** Now, one of the most common questions we get when we talk about any financial metric is, what's the right number? And, as you might guess, there's no one answer that applies to every organization with a metric like LUNA. You often hear 3 months or 6 months. My boss, Hilda Polanco, likes to say that it's whatever number will make the executive director sleep well at night.

**John Summers:** Ultimately, when you're setting your target, you want to think about things like the reliability of your revenue, the predictability of your expenses, your future plans and strategies. And, on things like revenue and expenses, the more variability that you have in those things, and unpredictability, probably the more LUNA you need to have in order to mitigate those risks, right? And if you have big plans, you want to build that up in order to execute on those plans going forward, and new investments that you want to make in programming or in equipment, or anything else. So, it's really a matter of, “Where are we? And what does our business model look like? And where are we going?” And that's sort of how you set your target.

**John Summers:** What I can show you is not necessarily what you should have, but what organizations in the sector do have. So, some stats here from another part of Nonprofit Financials. I've got two statistics on this slide. On the left, we have a pie chart of about 170,000 U.S. nonprofit organizations’ data taken from their Form 990 filings. And what we can see is that about a quarter of nonprofits have less than a month of LUNA. (That's in the pink here.) Another little-more-than-a-quarter have between one and 6 months, and then just under half of nonprofits have 6 months or more, with a good portion of those having at least a full year.

**John Summers:** Now, how does that break down further? What we see in the table on the right might be the surprising figure, which is that smaller organizations tend to have more LUNA than larger organizations, and it's a pretty steady trend: As organizations get larger, that number tends to decline — again, in relative terms, not in dollar amount. But we're talking about months of LUNA, so it's relative to the size of the organization. What we're seeing is that LUNA doesn't necessarily scale with organization size. So that's something to keep in mind.

**John Summers:** And why would that be? One reason is that larger organizations, we’re talking just about bigger absolute numbers. So, three months of the reserves for a $100 million organization equals $25 million, and that's just a lot of scratch to build up. And I'm sure leaders of very large organizations will tell you that they might have a lot of money coming in, but there's also a lot of money going out, so it might be more like a money-circulating machine than a money-making machine. Another factor is that larger organizations tend to have more complicated capital structures than smaller organizations. So, for this under-$1 million group, it’s likely that most all of their assets are unrestricted, probably in cash. Things that fit into our LUNA metric. Larger organizations are likely to have buildings, and equipment, and maybe more complicated investments. So those things aren't going to necessarily show up in LUNA.

**John Summers:** Which brings us to my last points, which is that while this is a very good metric, it needs to be contextualized and its limitations understood. The big one to remember is that it's only taking into account unrestricted funds, and lots of organizations have restricted funds from grants. And there's certainly nothing wrong with that. Restricted funds might cover a good portion of your organization's expenses, and that's part of the context for what you might look for in your LUNA calculation. If you run very heavily on grants and restricted dollars, you can probably get away with a lower LUNA number than might be comfortable if unrestricted dollars are really the only kind of funding that's coming in. So don't think of restricted funding as a bad thing. It's part of the puzzle that is or might be your nonprofit’s business model, and it impacts how to understand your financial health.

**John Summers:** So, with that, I'm going to turn things over to my friend and colleague, Dana Britto, to introduce and interview our guest for the case study.

**Dana Britto, NFC Moderator:** Thanks so much, John. Again, welcome here again today. Thanks so much for your participation and active participation, especially in the chat. Keep the comments coming. Present us your questions, answer each other's questions. Really love the spirit and the energy behind the chat right now.

**Dana Britto:** Once again I'm Dana Britto. I am a fellow moderator for the Nonprofit Financial Commons, like Ruth mentioned at the top of our session today. I have the honor and privilege of introducing and being here with Anthony Fullington, who's the Senior Vice President and Chief Financial Officer at the United Way of New York City. Anthony, welcome and thanks so much for being here with us today.

**Dana Britto:** Before we jump into questions, can you tell us a little bit about yourself, and tell us a little bit about the kind of roles that you've had and organizations that you've supported in those roles?

**Dana Britto:** (Oh, and you're muted, Anthony.)

**Anthony Fullington:** (Oh, yes, I did mute myself to avoid any kind of loud background noise.)

**Dana Britto:** (No worries.)

**Anthony Fullington:** It's a real pleasure to be here today. What a wonderful, wonderful forum to be a part of. So, as mentioned, my name is Anthony Fullington. I'm currently the Senior Vice President and CFO of United Way of New York City. I've been in the nonprofit sector for the better part of 30 years. Twenty of those 30 years, acted in a CFO capacity. Some of those organizations had budget size of over $50 million, and two of those organizations, two of the eight organizations that I worked for, were international organizations, including, or just to mention a few, Catholic Charities, the Archdiocese of New York, the Global Hunger Project, and New Israel Fund.

**Dana Britto:** Fantastic. Thanks for sharing your experience. So that's, again, 20 to 30 years of CFOs experience alone, and across a wide swath of organizations. So, broadly speaking, can you tell us a little bit more about how you're using ratios currently in your current role, and how that has changed across different roles, and different organizations, and different business models?

**Anthony Fullington:** Oh, absolutely. You know, I like to think of ratios as providing the opportunity to tell a story. And, certainly, I keep in mind that ratios is a measure that rating agencies and other interested parties use to compare the nonprofits that I work for, where, as a CFO, it’s my responsibility to put the nonprofit in the best fiscal light. So, being aware that others are using ratios to monitor our performance and our position, it’s very important that we tell the story properly, whether internally, or, again, externally to potential funders and maybe banks and other lenders. So, at United Way of New York City, the way we're using ratios certainly is to help us to procure from New York City and New York State — in many cases very, very, very substantial grants. United Way of New York City is a fiscal conduit to over 700 smaller CEOs. And in that role, or in the role of CFO, part of my responsibility is to make sure that liquidity, not only for United Way of New York City, but certainly for the smaller organizations, become very paramount to the success of delivering those services that New York City and New York State in particular entrust United Way of New York City to steward.

**Anthony Fullington**: So, liquidity, liquidity, liquidity. A lot has been said with regards to some of the other ratios, such as the overhead ratios, and we've heard a lot about the fact that that ratio is harmful. We heard about LUNA, and we heard some very interesting things with regards to other types of ratios, perhaps, that some organizations may find useful.

**Anthony Fullington:** I joined United Way of New York City three months ago, and the first thing I did was to go back and take a look at the reporting to the Board of my predecessors and took the temperament of the Board. It's very important not to overwhelm the Board with information that the Board may not be ready to absorb. So, going into the first meeting with 20 different ratios might not be the thing to do, okay? So, being very, very thoughtful with regards to gradually introducing certain types of ratios is very important.

**Anthony Fullington:** So that's United Way of New York City. Let's talk about the Chinese American Planning Council, where I recently worked. The Chinese Planning Council has a consolidated budget of over $300 million, and there are 13 various entities. The Board is very sophisticated and very interested in the various entities that make up the Chinese American Planning Council and affiliates, so ratios being used, ratios’ use in the Chinese Planning Council, again, was predominantly liquidity. But we also looked at fundraising efficiency. We looked at things like cost to raise a dollar. What does it cost us to raise a dollar? Some of those organizations within the fold, within the affiliate… some affiliated organizations were real estate holding organizations. So, we looked at debt ratios. Were we overleveraged? What type of relationship did we have between the two primary organizations, and those real estate organizations where we lease space, and the more management agreements between those organizations? So, we went up and down the balance sheet, up and down the statement of activities, looking at — or I did — with a view of the story I wanted to tell. And quite often, it was more efficient to use ratios than to write a narrative of 20 pages to tell a story. It was simply more effective to use ratios, and in this case, looking at the ratio, as Ruth mentioned before earlier, looking at performance across time: Where were we? Where are we? Where are we going? And, certainly, we looked very carefully at what happened within the sector in which the Chinese American Planning Council operated.

**Anthony Fullington:** One other. Let's look at the international organization where I worked, the Global Hunger Project. Very, very different. Ratios there, the focus? Liquidity. And we looked to see how the various countries that supported the work that was done in 26 countries around the world, how efficient were they with regards to, once again, raising monies in those countries to support the work that was being done globally. And there was that daunting task of consolidating the financial statements of 26 countries. And so, when you got through, produced and consolidated reports, you wanted to be laser-focused on the most important ratios in order to communicate to an international Board. So, it all depends upon where you are, and the nature of, or the focus of, the NGO.

**Dana Britto:** Love the focus on utilizing ratios as a storytelling tool, and not overwhelming with 20-plus ratios, and really focusing on what's most important to the respective nonprofit. So, we only have a couple of minutes left, so, in those final minutes… it certainly sounds like, Anthony, you have experience with some relatively large nonprofits at, you know, at least at $50 million and sometimes well over $50 million in operating budget. For those organizations that may be falling well below that budget threshold, what advice, or I guess considerations, can you have around developing and monitoring ratios, and particularly for smaller or younger organizations who are thinking about this as a way to help supplement their financial performance management capacities and systems?

**Anthony Fullington:** Well, you know, it was mentioned earlier that it's so important to build reserves. And in order to build reserves, it is necessary to be very artful in the way that government grants are procured, or private funding is procured. So, we come back to the whole idea of efficiency. How efficient are you? What's it cost to raise a dollar? How do we allocate expenses so that those expenses can be appropriately charged to government sources without the government sources rejecting your allocation methodology? How do you develop that indirect cost rate and work very hard to be able to get more, the largest indirect cost rate possible? And it calls back to the liquidity factor. So, liquidity and efficiency, liquidity, efficiency, and not to necessarily be over-focused on what similar size organizations — even though they may be similar size — perhaps are doing. You know, we mentioned earlier that with the focus on overhead ratios, quite often organizations weren't able to invest into infrastructure the way they should. Maybe the organization is staffed different than another organization in terms of the ability to be able to, for example, collect on receivables. So, being internally focused, and being really, really sharp as far as — I'm gonna use the word — “profitability,” so it could be able to flow to the bottom line and build those reserves, is really, really important. And debt management is very important, and using leverage wherever possible in that regard.

**Dana Britto:** Well, Anthony, thank you so much for walking us through your journey with ratios. I think some really important considerations for any organization to consider, regardless of their budget size. I'm going to hand it off to my colleague, Wade Rogers, to field some questions from our very active chat. Wade, take it away.

**Wade Rogers, NFC Moderator:** Thank you, Dana. My name is Wade Rogers. I'm one of your Forum moderators with the NFC, and I'm happy to go through some of the questions that not only came in before the webinar today in your registration, but that have come in through the chat, and I've done my best to summarize them. One that has jumped out in several cases, and it does relate to — and, Anthony, you just touched on it — was this notion of benchmarking your organization against others, and the trap you may fall in in the incomparability of these numbers. So, questions that have come in about, what are some good sources of these comparative information for benchmarking? And that's a question. But I suppose I might extend that question to, or is that a trap? Or is that not necessarily going to be helpful for you, based on your individual circumstances?

**Anthony Fullington:** Well, it may not necessarily be helpful. I mean, I would use benchmarks as a broad guide. You know, I've worked with organizations wherein we were facing significant challenges around recruiting staff in a certain area. And there was a study done, a compensation study done, and what the HR team came back with is, “Hey, our staff is compensated much higher than other organizations, and therefore we need to hold the salary at a certain base level.” And there were significant vacancies or delays in hiring as a result of that, because those organizations, unfortunately, weren't in line, the compensation wasn't in line with the general market. But because the organizations focused on similar areas of need — let's say, homelessness, or justice and opportunity — there’s this feeling that, okay, we need to be similar to them. And quite often, some of those organizations weren't in the same zip code, which certainly affects compensation. So, I would say use benchmarking, again, very carefully.

**Wade Rogers:** Yeah. And I think that the other thing that came up quite a lot when Michael was talking about the overhead ratio, which always ignites a firestorm whenever we bring it up, was the idea that this is one of your most public-facing ratios, and that we really do need to take a more proactive stance in in communicating what our situation is to our funders and our constituents. And I wonder what strategies the four of you may have with respect to that, in terms of those communications. One can go, “go look at our 990 and do the calculation,” but how that may be further communicated as to what our situation is that leads to a certain ratio.

**Ruth McCambridge:** You know, I really feel strongly like every time the notion of overhead comes up, you should have a rant prepared about it, because it is a very inaccurate tool. It's like using a blunt instrument on absolutely everything in sight. So, as a leader of an organization, you have to be prepared. Small organizations — I thought one of the really interesting things in that article about the overhead rate is that organizations between $100,000–$500,000 had these really high overhead rates because they were building their systems. Well, of course that's true. It makes perfect sense. But the assumption is something different, because it's a blunt tool. I think that we have to demand more respect, in essence.

**Ruth McCambridge:** I do want to talk for a minute about, you know, there's these embedded assumptions. I was talking to Anthony yesterday about this and saying to him, “So, what are the attitudes towards overhead rates overseas,” since he works in a lot of international organizations, and they're not the same. This is a culturally specific obsession in the United States about our overhead rates that comes from the [inaudible] era,

or whatever. Some idea that frugality is where, and poverty is where, nonprofits have to live, and if we don't want that imposed on us, we have to say “no.”

**Ruth McCambridge:** I do want to say, looking past the assumptions of a ratio that's being imposed is so important. I was reading a research article by Susan Ostrander about arts organizations that were coming out of the pandemic, and they were rebuilding their audiences, but they were rebuilding them differently, and the assumption was that they were gonna earn more earned income. Not true. They did successfully build out their audiences, but the time, the arc of time that it took to do that and start to create additional income, was beyond the scope of the study. So, I think we have to really demand that we are treated in the same kind of way that for-profits are treated. But our measure is not profits; it's organizations that are on mission, and we have to find a better way of promoting that. Sorry. That was my rant. Sorry.

**Anthony Fullington:** If I can just also add very quickly that my observation is that many of the foundations, or even the rating agencies that so focus on the overhead ratio, fail to take into consideration outcomes. There isn't a lot of discussion with regards to outcomes. Yes, Organization #1 may have a ratio of, let's say 80/20, 80% program versus 20% admin, but that organization in terms of outcome may be delivering a thousand widgets, while an organization that perhaps has 60/40 is delivering 2,000 widgets. So where does that come into the discussion? Quite often, it's about telling the story. And unfortunately, we often on the nonprofit side do not tell the story well. I've worked at organizations where for 15 years, they served 10,000 clients. That was what they delivered, “We serve 10,000 clients.” No one ever sat down to really, well, put in place a CRM with which to measure effectively and accurately how many clients were served. But there was this running 10,000, 15,000, okay? And foundations often go with that number, and it's a static number, and fail to consider that maybe that's not quite accurate. So, I'm just saying that, quite often, we do need to keep in mind that performance should be included in the discussion.

**Wade Rogers:** Thank you so much, Anthony, and thanks to all of you. We're out of time, so I will pass the mic over to Ruth to wrap things up.

**Ruth McCambridge:** Oh, I see Amanda took us straight to the most important slide of the day. This is the first time that we are asking you who are part of our community to donate to the Nonprofit Financial Commons. We really do need your financial support as well as all of your participation in in developing and delivering the knowledge that we own as a community of peers. There has been a donate link that has been dropped in the chat, and we really encourage you to use it. Pay us what you think we were worth today. Pay us what you think we've been worth to you in the last year. But, you know, paying in is actually pretty important to establishing this as a commonly owned community. So, I do want to say, there's wonderful resources that you'll be receiving in the mail. I really encourage you to read them. The piece from Searing and Lecy is wonderful. Steve Zimmerman’s stuff on —I'm calling it “for nonprofits on the edge” — is fabulous for small organizations, and for larger organizations experiencing many of the same things.

**Ruth McCambridge:** But we look forward to seeing you next month. We've got two great programs set for next month on board oversight of finances and on the membership business model for nonprofits, and I will see you then. We're gonna leave the chat open for a while so you that you can give us whatever pennies you can spare, and thank you. I want to thank you, all of you, for donating your time today. Thank you, Anthony and Michael. John, you were wonderful. And I'm sure we're gonna revisit this many more times as we begin to own it ourselves. Thank you.