

University of Wisconsin-Milwaukee
POL SCI 958: Financing Nonprofit Organizations
Fall 2011

Instructor: Grace L. Chikoto, PhD.
Class Time: Thursdays – 4:30 PM to 7:10 PM
Class Location: BOLTON HALL B72
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Course Description:

The current economic downturn has heightened the need for understanding the diverse ways nonprofit organizations are financed in the United States. This course introduces students to the trends and issues surrounding nonprofit finance in an attempt to sketch a portrait of, and develop your understanding of the nonprofit finance theory. The course will explore the interaction between nonprofit organizations and different funding sources thus drawing attention to the theoretical and practical implications for each funding source on the advancement of their missions. This class will therefore establish an understanding of the nature of the sector's funding environment, as well as examine the unique challenges and opportunities nonprofits encounter in each of the funding environments. Overall, the class is designed to build students' awareness of the ways nonprofit organizations are financed, the circumstances surrounding each funding source, and the subsequent implications for nonprofit mission advancement.

Course Objectives

Readings, student presentations, discussions and written assignments are intended to help students think critically about the trends, opportunities and challenges in the nonprofit sector when it comes to its financial and resource development.

Upon completion of this course:

- ~ Students will develop an appreciation and understanding of the full range and scope of nonprofit organizations' funding sources and how they are currently being utilized within the sector, as well as the significance of diverse funding sources.
- ~ Students will be familiar with the theoretical underpinnings supporting how different funding sources are utilized to finance different missions and activities.
- ~ Students will have an understanding of the challenges and issues associated with nonprofit dependence on different funding sources.
- ~ Students will appreciate nonprofit risk management and assessments of nonprofits' financial health.

Course Requirements

- Each student must attend class and actively participate in class discussions.
- Each student must complete the assigned readings as scheduled and on time.
- Each student must be prepared to present their assigned topic at the appointed time.
- Each student must complete all assignments and submit them on time.
- Each student must be respectful of other students' ideas and experiences.

REQUIRED BOOK(S) AND OTHER READINGS

Books available at the university bookstore, online booksellers, and at the Golda Meir Library (required readings):

- 1) Dennis R. Young (Ed.), (2006). *Financing Nonprofit: Putting Theory into Practice*. Lanham, MD: National Center on Nonprofit Enterprise and AltaMira Press.
- 2) **Case Study # CI5-00-1555.0:** "Give and Take: Philanthropy and the central Part Children's Zoo" Please purchase this ahead of time from the Kennedy School of Government Case Study Program site: <http://www.ksgcase.harvard.edu/>

Suggested Texts:

- 1) Burton A. Weisbrod (Ed) (1998), *To profit or not to Profit: The Commercial Transformation of the Nonprofit Sector*
- 2) Elizabeth T. Boris and C. Eugene Steuerle, (Eds.), (2006). *Nonprofits and Government: Collaboration and Conflict*. Washington, D.C.: The Urban Institute Press.

GRADE WEIGHTS

1) <i>Written Report: By Sector: Diversity of Nonprofit Financing</i>	20%
2) Class Participation	10%
3) Individual Chapter/Topic Presentations	10%
4) Midterm Exam	30%
5) Final Group Consulting Project	20%
6) Group Poster Presentations	10%
TOTAL	100%

The final grade will be calculated as follows:

<i>Grade</i>	<i>Overall Score</i>
A	95.00 – 100.00
A-	90.00 – 94.99
B+	87.00 – 89.99
B	83.00 – 86.99
B-	80.00 – 82.99
C+	77.00 – 79.99
C	73.00 – 76.99
C-	70.00 – 72.99
D	60.00 – 69.99
F	<60.00

*See Appendix A for a full description of the Assignments, their Due Dates.

Academic Policies at the University of Wisconsin-Milwaukee

Statement of Academic Misconduct

Chapter UWS 14, entitled “Student Academic Disciplinary Procedures,” of the Wisconsin Administrative Code contains rules enacted by the University of Wisconsin Board of Regents that apply to all University of Wisconsin-Milwaukee students. Section 14.01 states, “The Board of Regents administrators, faculty, academic staff and students of the University of Wisconsin System believe that academic honesty and integrity are fundamental to the mission of higher education and of the University of Wisconsin System. The University has a responsibility to promote academic honesty and integrity and to develop procedures to deal effectively with instances of academic dishonesty. ... Student who violate these standards must be confronted and must accept the consequences of their actions.”

Statement of Sexual Harassment

Sexual harassment is reprehensible and will not be tolerated by the University. It subverts the mission of the University and threatens the careers, educational experience, and well being of students, faculty, and staff. The University will not tolerate behavior between or among members of the University community which creates an unacceptable working environment.

Discriminatory Conduct

The University of Wisconsin-Milwaukee remains steadfastly committed to the principles of academic freedom. This commitment requires an equally strong obligation to foster respect for the dignity and worth of each individual. Without this respect, the principles of academic freedom become meaningless. Moreover, relationships such as student-faculty and employee-supervisor have inherent power differences that compromise some persons’ ability to protect their own rights. Therefore, this University must provide an environment that respects the value of each individual and which does not tolerate discriminatory conduct of any kind.

University Policies Regarding Change of Registration/ Adding and Dropping or Withdrawal from Classes

After initial registration, students have the opportunity to modify their class schedule by adding, dropping or withdrawing from classes during specific periods prior to the start of the semester. Such changes can be made without financial penalty until shortly before the start of the term (or before the start of a particular summer session). However, significant financial penalties can apply for changes made beyond the appropriate deadline, and some departments have unique deadlines and approval requirements governing how and when students may add and drop particular courses. Some academic programs also require their students to obtain specific approval for adding or dropping courses. Consult the most recent *Schedule of Classes* for dates, deadlines and procedures or contact the Business School Undergraduate Student Services office.

University Policies Regarding Repeating Courses

Unless a restriction is stated in the *Schedule of Classes*, undergraduates may repeat any course **only once**. Under exceptional circumstances, one more repeat may be allowed following approval of a written appeal to the advising office of the student’s school or college. Except in the case of courses with variable content (which may be repeated for credit as often as permitted for that particular course, as specified in UWM Bulletins), both grades earned for repeated courses will appear on the student’s academic record, but only the higher

grade will be calculated into the grade point average. Students illegally repeating courses will be dropped, and "WR" will be assigned to the course on the student's academic record.

Students who took a course as a repeat prior to Fall 1988 are entitled to one additional enrollment. Transfer students who did not previously take a course at UWM are entitled to one repeat at UWM of a course taken at a previous institution.

In courses of limited enrollment, qualified students who have not taken the course previously have priority. It is generally advisable for any student to consult an advisor before registering to repeat a course.

University Policy Regarding Incompletes

You may be given an incomplete if you have carried a subject successfully until near the end of the semester but, because of illness or other unusual and substantiated cause beyond your control, have been unable to take or complete the final examination or to complete some limited amount of course work. An incomplete is not given unless you prove to the instructor that you were prevented from completing the course for just cause as indicated above.

Since Fall 1988, undergraduates have been required to complete a course marked incomplete during the first eight weeks of the next semester of enrollment (excluding summer sessions). An extension to the end of the semester is possible if extenuating circumstances prevent you from completing the required course work during the first eight weeks.

Extensions must be recommended by the instructor and approved by the dean of your school or college. If you do not remove the incomplete during the first eight weeks of the next semester of enrollment, the report of I will lapse to F. Audits will lapse to U. Credit/No Credit will lapse to No Credit. If you do not enroll for the next semester, the report of I will lapse to W (withdrawal) after one year.

University Change of Grade Policy and Procedures

The following is from UWM Faculty Document No. 1927, May 12, 1994, entitled "Policies on Grading and Grade Records". Grade or Record Changes. Instructors may not change a semester grade after the grade sheet has been submitted to the Registrar except for an inadvertent error in determining or recording the grade. Any change in a student's grade or record, including retroactive change to drop, withdrawal, or incomplete, must receive the approval of the Dean of the School or College in which the student was enrolled at the time the course was taken.

Concealed Weapons

Please be advised that **"No weapons are permitted in any building on the UWM campus."**

SCHEDULE OF CLASSES & REQUIRED READINGS

I. THEORY AND PRACTICE OF NONPROFIT FINANCE

September 8th: Introduction

- ✓ Brief Overview of Nonprofit Financing Course
- ✓ Expectations
- ✓ Writing and Proper Citations

September 15th: Overview of Nonprofit Financing Patterns in the United States

- ✓ What is the Nonprofit Sector?
- ✓ How is this sector funded?
- ✓ What patterns can we observe about how the sector is funded? In what ways does funding differ by sector?
- ✓ To understand the diversity of nonprofit sector and its financing

Required Readings:

1. Boris and Steuerle (2006), Scope and Dimensions of the Nonprofit Sector, *In Powell and Steinberg (2006), Nonprofit Handbook (D2L)*
2. Burton A. Weisbrod (1998), "The Nonprofit Mission and its Financing; Growing Links between Nonprofits and the Rest of the Economy," *In Burton A. Weisbrod, To profit or not to Profit: The Commercial Transformation of the Nonprofit Sector (D2L)*

September 22nd: A Conceptual Framework for Nonprofit Finance

- ✓ Understanding how different missions are financed?
- ✓ Key Subsectors: Education; Human Services; INGOs; Hospitals; and the Arts

Required Readings:

1. Dennis R. Young (2006), "Why Study Nonprofit Finance," *In Financing Nonprofits: Putting Theory into Practice*
2. Dennis R. Young (2006), "Toward a Normative Theory of Nonprofit Finance," *In Financing Nonprofits: Putting Theory into Practice*

September 29th: Theory and Practice in Individual Giving & Institutional Philanthropy

- ✓ Do foundations behave differently?
- ✓ What challenges should nonprofits be aware of?
- ✓ What sort of relationships exists between foundations and nonprofits?

Required Readings:

1. Patrick Rooney (2006), "Individual Giving," *(Dennis Young, ed), In Financing Nonprofits: Putting Theory into Practice*
2. Joseph Cordes and Richard Sansing (2006), "Institutional Philanthropy," *(Dennis Young, ed), In Financing Nonprofits: Putting Theory into Practice*
3. **Case Review:** Give and Take (Purchase from The Kennedy School of Government)

ASSIGNMENT #1 DUE (IN-CLASS SUBMISSIONS)

October 6th: Theory and Practice in Government Funding

- ✓ What Opportunities, Challenges and Constraints lie in Government Funding?
- ✓ What features of government funding make it (un)attractive to nonprofits?
- ✓ How useful is government funding to nonprofits organizations?

Required Readings:

1. Michael Rushton and Arthur C. Brooks (2006), "Government Funding of Nonprofit Organizations," (*Dennis Young, ed*), In *Financing Nonprofits: Putting Theory into Practice*
2. Carlson, Janet, Alison Kelly, and Ken Smith., (2010), "Government Performance Reforms and Nonprofit Human Services: Twenty Years in Oregon." *Nonprofit and Voluntary Sector Quarterly* 39 (4):630-652. [D2L]
3. **Case Review:** CARE Turns Down Federal Funding [D2L]

1) DESIGN INTERVIEW GUIDE (IN-CLASS EXERCISE)

2) TAKE HOME EXAM POSTED ON D2L AFTER CLASS

October 13th: Theory and Practice in Fee and Commercial Income

- ✓ Opportunities, Challenges and Patterns of Fee and Commercial Income?
- ✓ Which sectors are mostly like to generate revenues from fees and commercial income?
- ✓ What challenges arise from this form of commercialism?
- ✓ How to mitigate those challenges?

Required Readings:

1. Estelle James and Dennis Young (2006), Fee Income and Commercial Ventures, (*Dennis Young, ed*), In *Financing Nonprofits: Putting Theory into Practice*
2. Estelle James (1998), "Commercialism among nonprofits: Objectives, Opportunities, and Constraints," In *Burton A. Weisbrod (ed), To Profit or Not to Profit [D2L]*

October 20th: Theory and Practice in In-Kind Support

- ✓ Adding value to the nonprofits

Required Readings:

1. Anne E. Preston (2006), "Volunteer Resources," (*Dennis Young, ed*), In *Financing Nonprofits: Putting Theory into Practice*
2. Renee A. Irvin (2006), "Collaboration and Barter," (*Dennis Young, ed*), In *Financing Nonprofits: Putting Theory into Practice*

TAKE HOME MIDTERM EXAM DUE (D2L DROPBOX SUBMISSIONS: BY 4:30PM)

II. NONPROFIT SUSTAINABILITY, RISK, AND FINANCIAL HEALTH

October 27th: Nonprofit Sustainability and Capacity Building

- ✓ Exploring and understand the complexity of measuring the financial health of nonprofit organizations.
- ✓ Distinguishing financial capacity building and financial health and stability models.

Required Readings:

1. Chang, Cyril F., and Howard P. Tuckman., [1994], "Revenue Diversification Among Nonprofits," *Voluntas* 5 (3):273-290. **(D2L)**
2. Foster, W. and G. Fine (2007). "How Nonprofits Get Really Big." *Stanford Social Innovation Review* (Spring): 45-55. **(D2L)**
3. Froelich, K. A., [1999], "Diversification of Revenue Strategies: Evolving Resource Dependence in Nonprofit Organizations," *Nonprofit and Voluntary Sector Quarterly* 28(3): 246 – 268
4. **Case Review:** Museum and Historical Associations State Budget Cuts **(D2L)**
5. **Case Review:** Milwaukee Shakespeare Theatre **(D2L)**

November 3rd: Investment Income and the Role of Endowment

- ✓ What role does investment income and endowments play?
- ✓ How are they managed? Should nonprofit borrow for any reason?

Required Readings:

1. Bowman, Keating, and Hager (2006), "Investment Income," (*Dennis Young, ed*), In *Financing Nonprofits: Putting Theory into Practice*
2. Woods Bowman (2006), "Managing Endowment and Other Assets," (*Dennis Young, ed*), In *Financing Nonprofits: Putting Theory into Practice*

November 10th: Coping with Financial Challenges

- ✓ A Review of Cases Study

Required Readings:

1. New York Historical Society (D2L)
2. Erica Perez (2009), "New Law Lets Nonprofits Tap into their Endowments," *Journal Sentinel*, (July 21, 2009)
3. Burton A. Weisbrod & Evelyn D. Asch (2010), "Endowments for a Rainy Day," *Stanford Social Innovation Review*, (Winter)

**November 17th: LIBRARY HOURS – NO CLASS DUE TO ARNOVA CONFERENCE
WORK ON RESEARCH PROJECTS**

November 24th: THANKSGIVING

III. SYNTHESIS

December 1st: Nonprofit Income and Asset Portfolios – Does the Theory Really Work?

- ✓ Analyzing and Synthesizing Nonprofit Income Portfolios.
- ✓ How useful is Young's (2006) theory?
- ✓ What evidence do we have in support of this theory?

Required Readings:

1. Kevin Kearns (2006), "Income Portfolios," (*Dennis Young, ed*), In *Financing Nonprofits: Putting Theory into Practice*
2. Dennis R. Young (2006), "Toward a Normative Theory of Nonprofit Finance," (*Dennis Young, ed*), In *Financing Nonprofits: Putting Theory into Practice*
3. Fischer, Robert L., Amanda Wilsker, and Dennis R. Young. ,(2010), "Exploring the Revenue Mix of Nonprofit Organizations: Does it Relate to Publicness?" *Nonprofit and Voluntary Sector Quarterly* XX (X):1-20 (D2L)

December 8st: CASE REVIEWS DUE (In Class Submissions) By 7:10pm POSTER PRESENTATIONS (IN CLASS)

APPENDIX A

Summary of Graded Assignments (Subject to Change)

1. Student Participation Expectations and Individual Chapter/Topic Presentations (20%)

This course relies on student participation to function properly. I will call on students by name to answer questions about the readings, so I expect that you will have completed the required readings for each class.

Chapter/Topic Presentations

Each student will provide an in-class presentation of a topic/chapter. The readings will be randomly assigned by the instructor.

- a. Your task is to prepare a **1-page summary** of the reading for the class (**double-spaced and Size 12 Font**), as well as a copy for the instructor.
- b. **Your presentation however, should identify key points/contributions from the assigned article and should NOT take more than 15 minutes.**

How you present your key findings is up to you. You don't have to prepare a PowerPoint presentation for this.

2. ASSIGNMENT # 1: By Sector: Diversity of Nonprofit Financing (20%)

Learning Objective: To understand the diversity of nonprofit sector financing (by sector) using NCCS Data collected from the Form 990s that nonprofits file with the IRS. Your task is to use this data to analyze the funding sources of nonprofit organizations, by sector (e.g., Human Services, International NGOs, Arts and Humanities, etc).

Consider the following questions as you execute this assignment:

- 1) What is the nature of funding within the your assigned or chosen sector sectors?
- 2) Which subsector receives a greater share of its revenue from Commercial activities? Government? Donations? Private sector? Endowments? Other key funding sources?
- 3) In other words, which funding sources are dominant in which subsectors?
- 4) Does this pattern/trend make sense?

Submission Instructions:

- Submit a **4-5 page** report on your findings. This will be graded on the basis of how informative the report is and its ease of read.
- **Due Date: September 29, 2011** (In Class Submission)

3. TAKE HOME MIDTERM EXAM (30%)

Questions for this Take-Home Midterm will be posted on D2L on October 6, 2011. You will have approximately 2 weeks to complete and submit the exam. **Late submissions will not be accepted.**

Submission Instructions:

- Submit your midterm exam through the **D2L Dropbox by 4:30PM. Note that the Dropbox is Time Sensitive!!!!**
- **Due Date: October 26th, 2011**

4. FINAL TEAM CONSULTING PROJECTS (20%) & POSTER PRESENTATIONS (10%)

Learning Objective: To demonstrate an understanding and application of the concepts and ideas learned in this course through a real case study review. The goal is to ensure that you incorporate concepts and ideas learned throughout this course. **You will work in groups of three for this assignment** (Subject to Change) and this will constitute your Research Team.

- Each Research Team will reach out to a single nonprofit in a specified subsector (**Each group will be assigned/select a nonprofit from a unique subsector**).
- Your role is to interview **between 3 – 5 key personnel** (*e.g., CFO; Business Manager; Chairman of the Board of Directors, CEO, Board Treasurer etc*), about the nonprofit's mission and activities; its funding sources/streams.
- The objective here is to develop an understanding of the nature and structure of the nonprofit in question's financial portfolio – how it is financed; and the congruence (or lack thereof) between the nonprofit's funding sources and the activities it provides to fulfill its mission.

In this assignment, you will be expected to do the following:

A. Interview Guide:

We will design the *interview guide/instruments* together as a class, by identifying 5 key questions your team will ask in the interviews, in our fifth (5th) week of class (**October 6, 2011**).

B. Data Collection Phase:

- 1) Identify and reach out to a single nonprofit of your choice (but within a specified subsector).
- 2) Solicit permission to Interview between 3 and 5 key individuals from the nonprofit.
- 3) Set up time as a team to interview your participants (Interviews can be in-person [Face-to-Face] or via telephone).
- 4) Conduct interviews to collect the data you will need. Each participant should sign and return an **Informed Consent** giving you permission to interview them and to use the data provided anonymously.
- 5) Generate a written transcript of the interviews (This will be your data)
- 6) In addition to this qualitative data, you **MUST** also collect any relevant information from the organization (*e.g., Financial Statements; Annual Reports; 990 Forms – For the most recent 3 years, etc*) that will also help you answer some of your questions.

C. Instructions and Guidelines for Analyzing The Data Collected:

Your Research should use the following guidelines to analyze your case. This exercise is designed to provide you with a solid overview and grounding in understanding Young's (2006) normative theory of nonprofit finance and most importantly, its utility in helping nonprofit organizations (and nonprofit scholars) to understand the linkage between their missions, the services offered, the nature of the benefits their service confer and their ability to devise strategies to attract funding from particular stakeholders/funding sources. The different components of Young's (2006) theory emphasize key areas nonprofit organizations may need to pay particular attention to. For instance, how feasible is it for a nonprofit to capture different income types, and to what extent is a nonprofit organization managing its risk, and using what strategies.

Young (2006) stresses that the theory suggests “a two-fold strategy for successful nonprofit financing: -

- I. The ability to consciously and strategically “construct a *nominal income portfolio based on the nature of the benefits* that the organization provides as a consequence of offering the services necessary to address its mission” (Young 2006:369).
- II. An opportunity to “make adjustments in the portfolio to account for practical management imperatives including *administrative feasibility of capturing each prospective income source, interactions among income sources, financial solvency, and risk management*” (Young 2006:369).

Below are some guidelines for analyzing Your Case: -

1. Using the key components of Young’s (2006) normative theory of nonprofit finance, clearly trace what this nonprofit’s finance theory looks like? **(5 points)**
 - a. Are all elements of Young’s theory evident from this case?
 - b. Are there areas where the nonprofit organizations can improve upon in any of the key components?
2. According to Young (2006), any theory of nonprofit finance needs to account for three basic issues [see page 339-340]; *(i) Current Operations*: The financing of current operations; *(ii) Capital Financing*: Financing of longer term capital needs; and *(iii) Finding and maintaining a balance or mix among different sources of income to achieve both (i) and (ii)*.
 - a. Focusing on these three components, provide an assessment of the status of this nonprofit organization (i.e., with respect to *(i), (ii) & (iii)*)? **(2 points)**
 - b. What is the nonprofit’s risk management strategy? (Say something about the state of the nonprofit’s financial health) **(3 points)**
 - c. What recommendations would you suggest to this organization to address any deficiencies in their financial theory? **(5 points)**
3. **NOTE:** As you answer these two basic questions above, please take in consideration the subsector this nonprofit belongs to, as well as some contextual factors unique to it: -
 - a. Are there some things/factors to consider that are unique to this sector and unique to the nonprofit itself (e.g., history; nature or line of work they are in? loss of key donor, etc...), that might have implications on their financial and risk management strategies? **(5 points)**

Submission Instructions:

There is a **15 – 20 double-spaced page limit** on this project (not including exhibits); I prefer the standard **Times Romans font, Size 12 Font**. Each student’s paper will be evaluated on the clarity of their ideas, the quality of their writing and the presentation quality of the overall proposal; in addition to their ability to synthesize and incorporate the concepts and ideas learned throughout this course. It is also important that you use proper citations in this paper.

Due Date for the Final team Consulting Papers: December 8, 2011 (In-Class Submissions).

D. In-Class Poster Presentations: (10%)

All groups should be ready to present their findings In-Class on December 8, 2011

Your key findings should be presented in a Poster Format. Each group should prepare a Poster approximately 4-foot-high by 6-foot-wide. Each Poster should be visible from at least 8 feet.

Organize the information on the Poster board in a clear, orderly, and self-explanatory manner. You have complete freedom in how you display your findings (e.g., in figures, tables, text, photographs, etc).

Help on How to Prepare Posters

UWM Poster Templates:

<https://www4.uwm.edu/uits/services/templates/index.cfm>

Consult the following UWM website for Instructions on Free Poster Printing:

http://www4.uwm.edu/poster_printing/

DigiCopy also does Poster Printing for a Fee...