BEHIND THE DATA

The Data Behind the Study

EquiP: The Equitable Impact Platform

CONTRIBUTION SCORE

<table>
<thead>
<tr>
<th>Contribution Rating</th>
<th>What is the range of Contribution Scores for each Rating?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>800 - 850</td>
</tr>
<tr>
<td>Very Good</td>
<td>740 - 799</td>
</tr>
<tr>
<td>Good</td>
<td>670 - 739</td>
</tr>
<tr>
<td>Fair</td>
<td>580 - 669</td>
</tr>
<tr>
<td>Poor</td>
<td>300 - 579</td>
</tr>
</tbody>
</table>

What is behind the contribution score?

- **Program Output:** An organization’s rate of change in total program expenditures over a 3-year period.

- **Community Well-Being:** Algorithms geospatially determine every nonprofit’s local service area based on the resources and transportation people need to access services. For these “communities,” algorithms use a well-published measure of community well-being to calculate their Area Deprivation Index (ADI). Lastly, ADI is then converted to a measure of Community Well-Being, on a scale from 1 to 100, where 1 is highly deprived and 100 is prosperous. Lastly, a rate of change is calculated for Community Well-Being over a 3-year period. The range of the rate of change in Community Well-Being over a three-year period is +/-8 points across all US Census Tracts.

- **Local Scaling:** A measure of how much of a slice of the total pie of local service delivery that an organization provides, for its specific type of service (e.g., the percentage of total local mental health services provided by one mental health organization). A rate of change in local scaling is calculated for every nonprofit, over a 3-year period.

- **Ideal Cash Flow:** Using predictive analytics it was determined that the ideal amount of cash reserves is 2.5 months, or 10 weeks, in order to maximize program growth and local scaling. A lot less than this amount results in less and/or negative growth and scaling, and more than this amount reduces the pace of growth and scaling. **NOTE:** this is an average across all organizations. The ideal amount of cash reserves varies somewhat, based on the types of services that an organization provides, as well as the local giving environment.

Using causal precision analytics, BCT Partners has trained machine learning algorithms to use community need data from the Census Bureau combined with nonprofit financial and governance data from the IRS to create a predictive Contribution Score for every nonprofit in the US. This Contribution Score reflects the effectiveness of a nonprofit’s business model to ensure the financial health required to grow and scale programs locally and contribute to improving community well-being.

The Contribution Score is on the same scale as an individual’s Credit Score, making it easy to interpret and derive a similar type of meaning. The Contribution Score reflects a nonprofit’s “contribution worthiness.”

GLOSSARY

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Financial Health of Nonprofits in the Region

• **Program Efficiency:** the proportion of expenditures used for program delivery. When it is at the right ratio, which is between 75% and 85%, organizations are more likely to grow, scale and contribute to improving community well-being in the future.

• **Surplus:** revenue minus expenses, at the end of the year. Organizations that have a surplus of 5% to 10% at the end of the year are better able to grow, scale and contribute to their communities more than others.

• **Cash Reserves:** the ‘liquid’ assets that an organization can pull upon in times of emergency. Organizations that have 10-18 weeks of cash reserves grow, scale and contribute to their communities more than others.

• **Debt-to-Asset Ratio:** calculated as a measure of being able to stay solvent for the long-run. Organizations that maintain no more than 2% to 6% debt-to-asset rate are healthier three years later.

Revenue Model

• Nonprofits, based on the types of services they deliver, require the right balance of revenue to become financially healthy, grow, scale and contribute to positive community change.

• The ‘ideal’ percent of revenue from different sources, has been predictively determined for each type of organization, based on their giving environment.

• When organizations achieve the right balance of revenue for their giving environment, they are better able to deliver programs, scale and affect positive change in their communities.

• Only 9% of organizations that do not have the right balance of funding sources, achieve growth and scaling that contribute to community improvement, while 66% of organizations that have the right revenue balance, contribute to their communities.

Expenditure Model

Like the revenue model, nonprofits need to find the right balance when it comes to how they spend their dollars. We have used precision analytics to determine the right balance (proportion) that a nonprofit should spend on staffing, capacity building, space, and promotion. When organizations do not have the ideal expenditure model for any type of expense, they are only 16% more likely to grow, scale and contribute to community well-being. When they achieve the right model for all types of spending, they are 70% more likely to be successful.

Capacity Building Matters

When nonprofits invest the right amount into paying for capacity building services, they are more likely to grow, scale and contribute to community improvement. In fact, organizations that invest 10% to 25% of their budget, or between $15,000 to $30,000 for the ‘average’ size nonprofit, are two times more likely to grow, scale and contribute to community well-being and improvement over a three-year period. Twenty-one percent of all nonprofits in the US invest the right amount into capacity building. All SWPA counties in this study rank below this national average.

Accountability, Transparency and Governance

Accountability, transparency and governance are key predictors of program growth, scaling and community change. The IRS 990 forms (EZ and Full Form) ask a series of questions about the governance of a nonprofit, including things like the board, its processes, and ways in which funds are being used. These questions are intended to flag nonprofits that could be poorly governed, or worse, using the nonprofit to conduct inappropriate or illegal business transactions. Additionally, the IRS 990, including the private foundation 990, provides access to every grant that is made. If a nonprofit has been vetted and approved to receive a grant from the government or a philanthropy, it is much less likely to be poorly governed, most likely because having been through the scrutiny of the funder due diligence process.

Using precision analytics, we were able to build highly accurate predictive models using governance and funding data to determine which organizations are 90% or more, likely to end up shutting down or dissolving more than 25% of their assets over a 3-year period due to poor governance practices and a lack of transparency (scrutiny from funders). The “Governance Warning” data represent the percent of all nonprofits that are 90% or more, likely to shut down or dissolve assets based on their governance practices and/or lack of transparency.

10-County Region

<table>
<thead>
<tr>
<th>Allegheny</th>
<th>Armstrong</th>
<th>Beaver</th>
<th>Butler</th>
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</thead>
<tbody>
<tr>
<td>Fayette</td>
<td>Greene</td>
<td>Indiana</td>
<td>Lawrence</td>
</tr>
<tr>
<td>Washington</td>
<td>Westmoreland</td>
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