Nonprofit Finance Fund™

NFF Capital Partners 2010 Portfolio Performance Report

September 2010

Dear Friends,

NFF Capital Partners was formally launched in 2006, when Clara Miller, CEO and President of Nonprofit Finance Fund, allowed the two of us to chase an entrepreneurial dream under the auspices of this marvelous organization. The idea was to adapt some well-known for-profit business techniques to help overcome the difficult set of challenges that even the best nonprofits face when they grow. And we knew it wouldn't be easy.

To help us transform our beliefs into a practice, we developed four core principles for NFF Capital Partners:

> **Our Belief**
> *Unless nonprofit capital markets evolve, they will continue to function poorly, and nonprofit firms will not thrive.*
>
> **Our Mission**
> *Close the nonprofit equity gap, forever.*
>
> **Our Strategy**
> *Practice, then persuade.*
>
> **Our Initial Aspiration**
> *By 2010, witness $300 million or more in philanthropic equity investments involving dozens of investors, nonprofits and intermediaries.*

Four years into the effort, we are pleased to report that NFF Capital Partners has indeed witnessed more than $300 million in investments of philanthropic equity. Virtually all of these deals have involved a wide range of funders and intermediaries as well as lawyers, audit firms, board members and thought partners. And while the terms and concepts we are using are still foreign to many, it looks like our sheer doggedness over the past four years is beginning to pay off. Of this $300 million-plus total, $116 million in investments involved NFF in a comprehensive way, applying our suite of Sustainable Enhancement Grant (SEGUE) methodologies[1]; and another $196 million in campaigns involved NFF in an advisory role. Together, as a field, we are learning!

What do we mean by "philanthropic equity?" Each of the fundraising campaigns described in this report fits NFF's definition of how philanthropic equity works when it is *done right*. Each campaign seeks to transform a nonprofit enterprise in a way that will stick. Each measures success in terms of the "perpetuities of good" that are accomplished, and connects those achievements to capital investment. Each is based on rigorous financial and program planning. Each campaign tracks progress on the way to a new "steady state" of operations, where no more growth capital funds are required (and equity funders can "exit"). Finally, each uses new accounting techniques that document the specific role equity plays throughout the life-cycle of the enterprise.

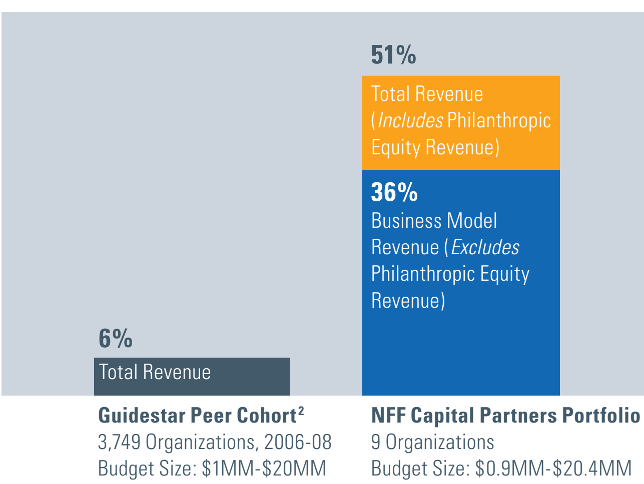
How well is this approach working? How much progress have we made toward "*Close the nonprofit equity gap, forever*"? We're seeing substantial forward motion…but "forever" is a long time and "close, forever" is pretty definitive! We have a way to go.

On the plus side, our strategy ("*Practice, then persuade*") seems to be working. A substantial group of promising organizations has raised large amounts of growth capital from a diverse group of individual and foundation funders. These funders have directed their capital gifts to enterprise-level business plans rather than to more specific purposes (i.e., facility, or endowment). Accordingly, the capital raised in these campaigns is free from the limitations of traditional bricks and mortar or endowment campaigns—essentially all of the funds raised are unrestricted as to use. And shared reporting between funders and nonprofits means we can demonstrate that the capital raised in these campaigns is not merely being used as "general operating support." These campaigns support positive changes in strategy and mission in a new and very powerful way.

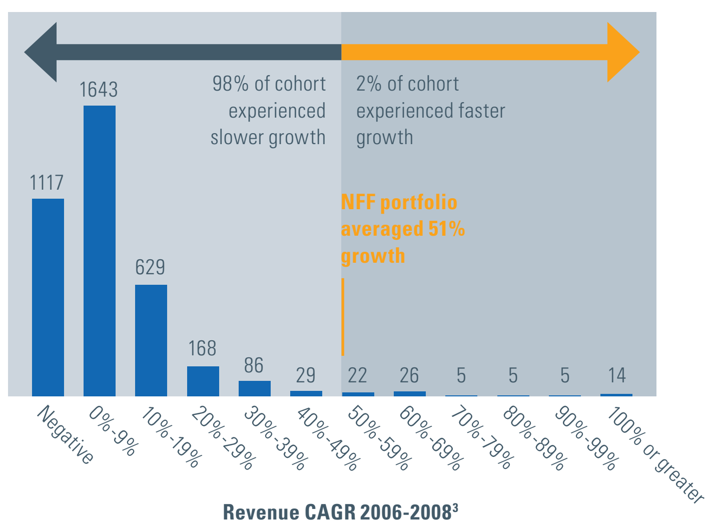
What has enabled this progress? Deep financial planning, financial modeling and a straightforward (but atypical) accounting treatment have made transparent communication possible for all parties to the transaction—investors and managers alike. And the investors are beginning to embrace the role of the "equity stakeholder." In these transactions, the role is clear and consistent: a protector of the organization's growth to a new level, and fidelity to a specific, time-limited plan where "exit" is defined and achieved.

Another plus is that the philanthropic equity techniques seem to be working. We are documenting an emerging track record of sustainable growth. So far, every organization in our portfolio has enhanced both its program delivery track record and the sustainability of its operations. Among the nine clients for which multi-year data are available, annual program delivery has grown on average by a factor of 3.1 and a compound annual growth rate of 57%. Annual business model revenue for these same organizations (which excludes revenue from philanthropic equity) has grown on average by a factor of 2.0, a compound annual growth rate of 36%.

Average Revenue Growth Rate
(Compound Annual Growth Rate)



Revenue Growth Distribution of Guidestar Peer Cohort



On the other hand, we're still working on the "Our Belief" bullet point: *"Unless nonprofit capitalization practices evolve … nonprofit firms will not thrive."* What we see is that while some progress has been made, in the broader marketplace there's a continuing lack of clarity among both funders and nonprofit managers about what equity is, exactly, and what it means to be a nonprofit equity stakeholder. Field practitioners are still struggling to understand how best to structure, manage and monitor equity-like investments.

One challenge is simply to overcome (or better adapt to) the realities of fundraising when these concepts are so nascent. Getting all the funders in a capital campaign to give based on the same set of plans can be like herding cats: some don't care what kind of accounting is used, or whether real sustainability is reached—they just want to support a terrific cause they care about. To some, our practices seem too for-profit-ish. Others feel strongly that money should go to one purpose (like a facility) within a larger plan, and only want reports on how their money was spent (traditional, but not "equity-like").

Thus, by and large, philanthropic equity is still being raised one funder at a time, with some individually customized timing and terms. True syndicates (acting on a single set of metrics, goals and reports) exist but are not yet the norm. Too often, funders join campaigns (and are permitted to join) without signing on to the specific grant language that enables equity-like transparency. For this reason, a significant number of current practitioners use methods that make it difficult or impossible to rigorously size up the results of these investments.

Why is this a problem from our perspective? After all, why would we want to complicate the already difficult task of raising money? Why not just go with the flow? Believe us when we say that we know it's dangerous to get between an executive director and a grant—any grant (and on any terms)!

We're uneasy about this because we fear that the hard-fought possibility of an "evolved capital market" could be undermined by knockoffs: organizations that simply raise annual operating funds in the guise of philanthropic equity without following the disciplines and practices that give this tool integrity. The public—and prospective funders—will see these practices as a fundraising gimmick. If this happens, it will just take us back to the familiar problems: unsustainable growth, unwanted dependency relationships (i.e., no exit, or messy exit, for funders) and programs that crash after a promising beginning. What's disheartening for us is that knockoffs will also undermine the chances that real philanthropic equity will be able to succeed, improve through high-quality practice, and become the major boon to the field we strongly believe it can be.

With the right disciplines in place, we foresee a day when investors of philanthropic equity will actually compete to be listed among an organization's equity stakeholders. This is a real possibility: unlike ongoing revenues, which are a "forever" kind of thing, the amount of equity capital an organization can take on is limited. One day, perhaps soon, the most promising nonprofit business plans and management teams may discover that their equity campaigns are "oversubscribed"! Wouldn't that be nice!

All told, and despite the many challenges that remain, the future for a well-capitalized nonprofit sector seems brighter than ever! We are very proud to participate in this grand, sector-wide experiment.

George Overholser

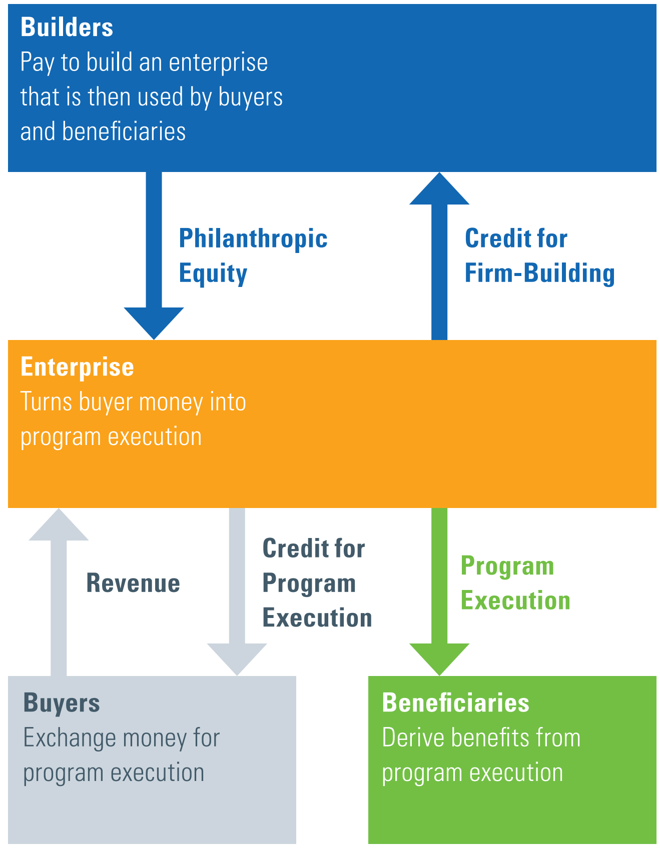
George Overholser
Founder and Managing Director

Craig C. Reigel

Craig Reigel
Partner

Building is Not Buying

Nonprofit Finance Fund's work in philanthropic equity is based on the idea that there are two main kinds of funder roles in the social sectors: *Buyer and Builder*. And just to be clear, individual funders can play both roles (most Builders are also Buyers).



Buyers Provide Regular Revenue

Nonprofits are in the business of turning money into effective program execution. *Buyers* purchase program execution, often on behalf of others. Buyers buy tickets for museum admission, provide scholarship grants that pay for individual tutoring sessions, give annual grants to help pay the cost of mounting human rights campaigns or pay for foster care services on behalf of government, to name four straightforward examples. Without buyers, programs don't happen: even an all-volunteer program requires that people give their time, "buying" the program operations by, in essence, paying for labor. Buying *doesn't* pay for growth, trial and error, shifts in strategy, or changing what an organization is capable of doing. It's about asking the organization to continue to do what it already does, year in and year out.

Buyers choose to buy for many reasons: performance vs. the competition, personal experience (or self-interest), price, convenience, loyalty, sentimentality—all familiar to buyers in any sector. Satisfied buyers continue to purchase products and services they like. All the flavors of "buy" money—including everything from earned revenue to annual grants to endowment income and more—are what sustains a healthy nonprofit by reliably covering the full cost of operations as long as there is demand for services.

Builders Provide "Change" Capital

What if a nonprofit needs to change what it can offer to the public? What if it needs to modify its operations, or strengthen its reputation, or improve its efficiency? What if it is bursting at the seams and satisfied buyers are urging it to expand? This is where builders come in. They provide philanthropic equity. The equity can be used for any purpose, and a builder pays for deficits incurred ahead of a rebuilt business model. The equity provider's aim is to build an improved mission factory that is not only better at executing mission-focused programs, but also attracts even more reliable buyers for the foreseeable future.

Building requires time, close stewardship, and a patient process of trial and error. It has a high risk of failure and often requires major shifts in strategic direction and personnel. Importantly, it is an episodic process – once an enterprise is built, the builders can exit. Indeed, it is by dismantling their growth capital "scaffolding" that builders can be sure the growth capital has been successful, and prove they have built an enterprise that can stand on its own.

What Happens when there's No Build-Buy Consciousness?

When funders and managers are unconscious of the rules that delineate builders and buyers in enterprise finance, bad things happen to good causes. Here are three common problems that crop up:

- *The Copernican Conundrum*: Instead of "putting the sun in the middle" by aggregating funders around a single theory of change and strategy, the executives find themselves orbiting one funder's planet after another—accepting grants with disparate rationales, reporting on them separately, and becoming blind to the true mission universe in which they operate.

- *No Exit*: Without "build-buy" accounting, progress (or lack thereof) toward a sustainable business model is masked. Nobody really can tell whether builders (equity stakeholders) have given rise to a sustainable enterprise, from which they can confidently exit without program demise, or at the very least, tearful scenes and embarrassment.

- *No Equity Stakeholder's Ethic*: Equity stakeholders protect for-profit and nonprofit enterprises from over-exploitation, and equity dollars make this possible: with equity dollars to draw upon, managers can turn down grants that don't fully cover costs, or resist the temptation to grow too fast.

Philanthropic Equity Done Right

Philanthropic equity protocols, well-described and widely accepted, can be game changing. But left to well-meaning but flaccid application, these concepts will fade prematurely. Without straightforward performance standards, half-baked imitations (much simpler and cheaper in the short term) will obscure the long term advantages of doing it right. Co-investment will shrink, the all-in cost of campaigns will grow, and organizations will forever flit from one funder's orbit to another.

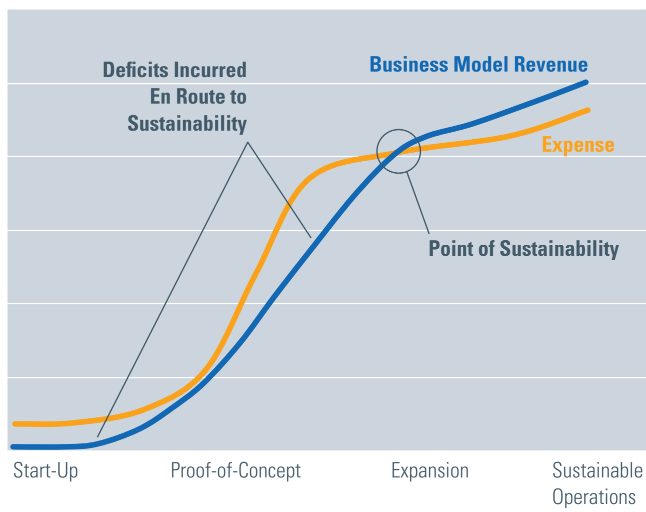
Done right, equity will help to align investors with nonprofits' missions and strategies. Investors will be incentivized to act together, co-investing under shared equity structures. Everyone will be able to determine whether or not their investments are successful, no matter whether they're building a building, an endowment, an organization with a robust nonprofit business model or a combination of these and other asset classes. And investors will be able to answer a range of questions, according to their interests: Has my money, and others', made a difference? Has the organization yet achieved sustainability under its chosen business model? How much philanthropic equity is left?

Moving Toward Standards: A First Step

At NFF, we believe it is essential that any field-wide standards incorporate the following three characteristics, which are fundamental to the meaning and purpose of philanthropic equity:

- *It's Invested at the Enterprise Level, Not the Program Level.* Unlike program-level finance, enterprise-level finance is unambiguous. Deficits/surpluses become stubborn and cannot be "manufactured" or transferred elsewhere through discretionary allocations of revenues and expenses between programs. Thus, as is the case with for-profit equity, philanthropic equity should be deployed and monitored at the enterprise level. Also, restricting an equity grant to a specific program is not in keeping with the management discretionary spirit of a growth capital investment.

- *It's Defined as Cumulative Deficits Incurred En Route to Sustainability.* Philanthropic equity is designed to subsidize an organization until it reaches a point where its activities are fully sustained by buyer-type funders, under a chosen business model. Once the business model has been implemented, no further infusions of equity are required – until the next time the organization chooses to go through another period of transformation.



- *It's Tallied Across All Investors, throughout the Lifetime of the Enterprise.* Let's be honest. Unless an organization's equity investments are both tallied across investors and expressed cumulatively over time, the concept of philanthropic equity loses veracity and reliability. Without this "odometer" the idea of equity stops being meaningful. Yet given these disciplines, everyone—early investors as well as later ones—can see the power of their contribution to the whole, distinguishing when and at what cost a business model-sustained organization is built.

Portfolio

To date, NFF Capital Partners has supported 16 campaigns for philanthropic equity, involving a grand total of $312 million in philanthropic commitments. Eleven comprehensive engagements have yielded $116 million of campaign commitments and five less in-depth advisory engagements have yielded $196 million. Comprehensive engagements, which are the focus of this report, typically consist of:

- An assessment of the organization's capacity to launch a campaign;
- Due diligence on the organization's leadership, track record, strategy, operations, finances and sustainability outlook;
- Development of a formal investment prospectus;
- Implementation of NFF Capital Partners' SEGUE accounting methodology;
- Development of financial and social metric reporting methodology.

Although our advisory engagements vary considerably, they tend to be less in-depth than comprehensive engagements, typically do not involve the creation of an investment prospectus, and mostly use accounting methodologies other than SEGUE.

It is important to note that NFF neither invests its own philanthropic equity nor acts as an agent to raise funds on behalf of its clients. NFF Capital Partners empowers and supports organizations in their efforts to raise philanthropic equity. The money raised in these campaigns is raised by the organizations themselves, often with the help of their existing funders.

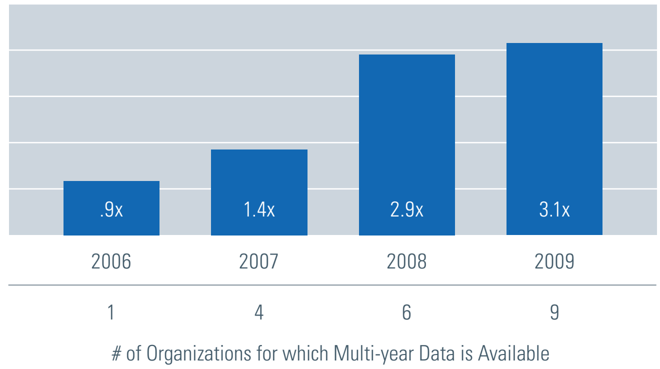
All $ values in millions

Campaign Start	Organization	Description	Philanthropic Equity Raised to Date
2006	GlobalGiving	International Giving Portal	$9
2007	DonorsChoose.org	Education Giving Portal	$14
2007	VolunteerMatch	Enabler of Volunteerism	$4
2007	Year Up	Workforce Development	$19
2008	Ashoka's Changemakers	Online Social Impact Competitions	$3
2008	VisionSpring	Base of the Pyramid Eyeglasses	$3
2009	Root Capital	Development Finance	$9
2009	Stand for Children	Education Advocacy	$4
2009	YES Prep Public Schools	Charter Management Organization	$22
2009	College Summit	College Access	$21
2010	Project HEALTH	In-Clinic Resource Connections	$8
		Comprehensive Engagements	$116
		Advisory Engagements	$196
		Total Philanthropic Equity Raised	**$312 Million**

Program Delivery Growth

Among the nine comprehensive engagements for which multi-year data are available, annual program delivery has grown on average by a factor of 3.1x, with a compound annual growth rate of 57%. We expect ongoing program execution to expand further as the organizations continue to implement their sustainable growth strategies.

Average Program Delivery Growth[6]
(Compared to Pre-Campaign Baselines)



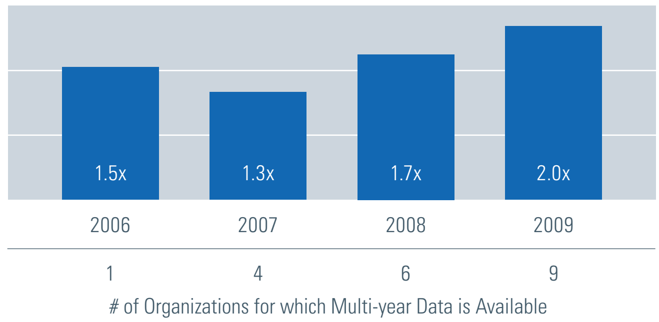
Campaign Start	Organization	Program Delivery			
		Metric	Baseline	Current	Growth Multiple
2006	GlobalGiving	Project Resources Delivered	$1,684,000	$8,577,494	5.1x
2007	DonorsChoose.org	Student Resources Delivered	$2,600,000	$10,117,000	3.9x
2007	VolunteerMatch	Volunteer Referrals	441,000	677,000	1.5x
2007	Year Up	Youth Served	352	793	2.3x
2008	Ashoka's Changemakers	Direct Innovation Funds Seeded	$7,000,000	$39,400,000	5.6x
2008	VisionSpring	Eyeglasses Sold	35,000	201,000	5.7x
2009	Root Capital	Loans Disbursed	$41,200,000	$56,900,000	1.4x
2009	Stand for Children	Education Reform Victories	15	17	1.1x
2009	YES Prep Public Schools	Students Enrolled	2,008	2,638	1.3x
2009	College Summit	High School Seniors	15,500		
2010	Project HEALTH	Clients Served	4,487		
				Average Growth Multiple[4]	**3.1x**
				Average CAGR[5]	**57%**

Business Model Revenue Growth

Each organization's business model represents the revenue-generation methods by which it intends to sustain its long-term enterprise operations. By definition, business model revenues exclude philanthropic equity and other extraordinary (i.e., non-repeatable) means of attracting revenue.

Among the nine comprehensive engagements for which multi-year data are available, annual business model revenue has grown on average by a factor of 2.0x, with a compound annual growth rate of 36%. In aggregate, business model revenues have expanded by $30 million compared to pre-campaign baselines. We expect ongoing business model revenue to expand further as the organizations continue to implement their sustainable growth strategies.

Average Business Model Revenue Growth[9]
(Compared to Pre-Campaign Baselines)



All $ values in millions

Campaign Start	Organization	Business Model Revenue[10] Baseline	Current	Growth Multiple
2006	GlobalGiving	$1.0	$1.4	1.4x
2007	DonorsChoose.org	$3.5	$15.6	4.5x
2007	VolunteerMatch	$2.5	$3.5	1.4x
2007	Year Up	$11.4	$18.6	1.6x
2008	Ashoka's Changemakers	$0.9	$3.9	4.2x
2008	VisionSpring	$1.2	$1.3	1.1x
2009	Root Capital	$1.2	$1.8	1.6x
2009	Stand for Children	$4.2	$4.9	1.2x
2009	YES Prep Public Schools	$17.9	$23.1	1.3x
2009	College Summit	$14.5		
2010	Project HEALTH	$4.1		
			Average Growth Multiple[7]	**2.0x**
			Average CAGR[8]	**36%**

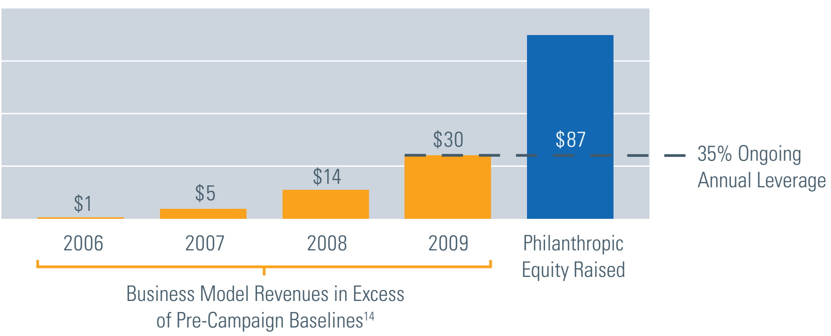
Revenue Leverage Ratios

Endowments typically yield a "Revenue Leverage Ratio" of about 5%. For example, if philanthropic equity were used to establish a $100 million endowment, the endowment could generate sustainable ongoing revenues of about $5 million each year, which could then be directed towards expanded program execution.

Revenue leverage ratios can also be calculated when philanthropic equity is used as growth capital. For example, if $100 million of growth capital enables an organization to expand its ongoing revenue generation by $20 million, it yields a 20% ongoing revenue leverage ratio.

Among the nine portfolio members for which multi-year data is available, annual business model revenues are currently $30 million higher than the baselines that were set before $87 million of associated philanthropic equity was invested. Thus, the combined "revenue leverage ratio" among these investments is 35% ($30 mm/$87 mm = .35).

Business Model Revenue Growth over Baseline vs. Equity Raised
($ in millions)



All $ values in millions

Campaign Start	Organization	Philanthropic Equity Raised	Business Model Revenue			Revenue Leverage[11]	
			Baseline	Current	Change	Ongoing Annual	Cumulative
2006	GlobalGiving	$9	$1.0	$1.4	+$0.4	5%	0.2x
2007	DonorsChoose.org	$14	$3.5	$15.6	+$12.1	86%	1.5x
2007	VolunteerMatch	$4	$2.5	$3.5	+$0.9	23%	0.3x
2007	Year Up	$19	$11.4	$18.6	+$7.3	38%	0.8x
2008	Ashoka's Changemakers	$3	$0.9	$3.9	+$2.9	98%	1.3x
2008	VisionSpring	$3	$1.2	$1.3	+$0.1	3%	0.0x
2009	Root Capital	$9	$1.2	$1.8	+$0.7	7%	0.1x
2009	Stand for Children	$4	$4.2	$4.9	+$0.7	16%	0.2x
2009	YES Prep Public Schools	$22	$17.9	$23.1	+$5.2	24%	0.2x
2009	College Summit	$21	$14.5				
2010	Project HEALTH	$8	$4.1				
					Average[12]	**33%**	**0.50x**
					Pooled Average[13]	**35%**	**0.56x**

Case Studies

changemakers

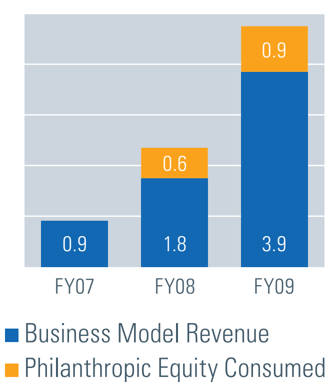
ASHOKA

About	Mission	Model	Growth Goals
Founded: 1994 Headquarters: Arlington, VA Domain: Social Entrepreneurship	Connect individuals and organizations committed to making positive social change through online communities, forums, and competitions.	Supports ideas, mentors, donors, and networks in achieving social change through an online community at Changemakers.com. Changemakers uses a fee-for-service model, in which foundations pay Changemakers to host topic-specific online competitions.	By 2012, host 72 or more competitions per year, leading to $250 million of investment towards peer-reviewed, open-sourced social purpose projects throughout the world. Earned revenues are targeted to cover operating expenses by fiscal year 2011.

Philanthropic Equity Campaign

Start of Campaign: 2008
Total Raised to Date: $3 MM
Lead Investor: Rockefeller Foundation ($2.5 MM)

Due to the early stage of the organization's development and because funders had already been identified, a prospectus was not used. Through FY09, Changemakers has consumed $1.6 MM of its philanthropic equity.



($MM)

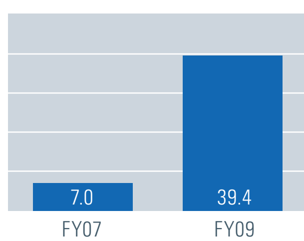
106% compound annual growth rate of business model revenue (FY07-09)

Revenue results are presented as though Changemakers operated separately from Ashoka, its parent organization.

Progress to Date

Prospectus Metric	Baseline: FY07	Current: FY09
Direct Innovation Funds Seeded	$7 MM	**$39 MM**
Competitions Hosted	9	**16**
Visitors to Changemakers.com	0.5 MM	**1.4 MM**
Sustainability Metric	90%	**71%**

Innovation Funds Seeded



($MM)

137% compound annual growth rate (FY07-09)

Changemakers' fiscal year ends August 31st.
Changemakers currently employs a measure of sustainability that equals operating revenue divided by total expenses.

Reflections and NFF's Role

Philanthropic equity has allowed Ashoka's Changemakers to test the competition marketplace and refine its service offerings, while proving that customers will pay well for its products. NFF Role: Due diligence, investment memorandum, SEGUE accounting treatment, reporting methodology, annual reviews.

Social Return

Thus far, Changemakers has leveraged its $3 million of philanthropic equity to attract over $75 million in funding to social projects championed and vetted through its online competitions.

About

Founded: 2000
Headquarters: New York, NY
Domain: K-12 Education / Philanthropy

Mission

Ensure that students in high-need public school classrooms around the country have access to the project materials they need to learn.

Model

DonorsChoose.org's online marketplace allows citizen philanthropists to find and fund classroom projects posted by public school teachers around the country. Project sponsors receive direct feedback and "thank-you" packages from sponsored classrooms. The business model is sustained by an optional percentage-of-donation fulfillment fee.

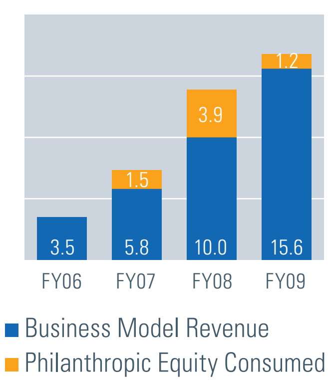
Growth Goals

By 2012, enable citizen philanthropists to deliver $17 million of project resources per year to 53,000 teachers in primarily low-income classrooms. Once $45 million of annual donation volume is achieved, an 18% project fulfillment fee will cover 100% of operating expenses.

Philanthropic Equity Campaign

Start of Campaign: 2007
Total Raised to Date: $14 MM
Lead Investors: Omidyar Network ($6 MM), AIG ($2 MM)

The campaign was completed in two years using a prospectus and shared reporting format to align funders. DonorsChoose.org rigorously tracks the use of philanthropic equity in its audited financial statements. Thus far, DonorsChoose.org has consumed $6.5MM of its philanthropic equity.



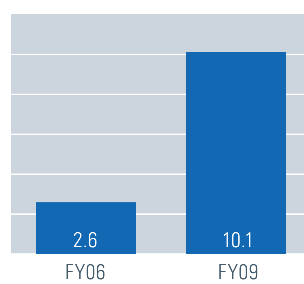
($MM)

65% compound annual growth rate of business model revenue (FY06-09)

Progress to Date

Prospectus Metric	Baseline: FY06	Current: FY09
Student Resources Delivered	$2.6 MM	**$10.1 MM**
% of Schools Served that are High Need	N/A	**85%**
Projects Funded	N/A	**34,202**
Sustainability Metric	15%	**39%**

Student Resources Delivered



($MM)

58% compound annual growth rate (FY06-09)

DonorsChoose.org's fiscal year ends June 30th.
DonorsChoose.org employs a measure of sustainability equal to fulfillment fees divided by operating expense (excluding classroom project materials and select other expenses).

Reflections and NFF's Role

DonorsChoose.org is on track to achieve full sustainability without needing to raise any more philanthropic equity. Pre-raising philanthropic equity has allowed DonorsChoose.org to focus exclusively on building its fee-supported business model. No ongoing effort is spent on fundraising. NFF Role: vetted the Expansion Plan and advised on the structure of deal terms.

Social Return

Thus far, DonorsChoose.org's $14 million of philanthropic equity has given rise to a four-fold increase in student resources delivered each year. Cumulatively, DonorsChoose.org has delivered $15.5 million of student resources over its 2006 baseline of $2.6 million.

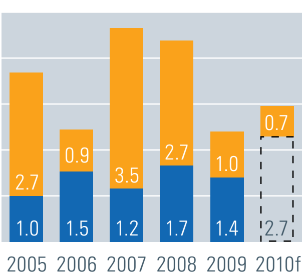
globalgiving

About	Mission	Model	Growth Goals
Founded: 2002 Headquarters: Washington, DC Domain: Citizen Philanthropy	Build an efficient, open, thriving marketplace that connects people who have community and world-changing ideas with people who can support them.	Social entrepreneurs pitch their vetted projects on GlobalGiving.org, giving donors an intimate look at the projects' unique needs and work. Donors browse the website, research causes by topic or location, and donate to projects that match their interests. GlobalGiving is sustained by percentage-of-donation fulfillment fees and fee-for-service consulting revenue.	By 2012, enable philanthropists to deliver $35 million of support per year to social entrepreneurs who have community- and world-changing ideas. Fulfillment fees and other fee-for-service revenue will cover 100% of operating expenses by fiscal year 2012.

Philanthropic Equity Campaign

Timing: Since 2006
Total Raised to Date: $8.7
Lead Investors: Omidyar Network ($4 MM)

GlobalGiving used a prospectus to align funders but did not employ an all-at-once campaign format. Prior to 2006, GlobalGiving raised an additional $4.2 MM in philanthropic equity in the form of operating grants. Formal SEGUE accounting has not been implemented. GlobalGiving has consumed $8.6 MM of philanthropic equity from its 2006 campaign.



■ Business Model Revenue
■ Philanthropic Equity Consumed

($MM)

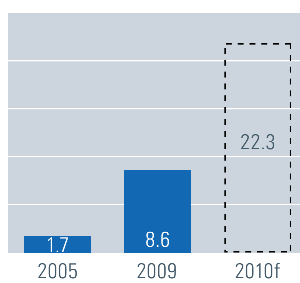
9% compound annual growth rate of business model revenue (2005-09)

22% compound annual growth rate (2005-10f)

Progress to Date

Prospectus Metric	Baseline: 2005	Current: 2010f
Project Distributions	$1.7 MM	**$22.3 MM**
Sustainability Metric	37%	**70%**

Project Distributions



($MM)

50% compound annual growth rate (2005-09)

67% compound annual growth rate (2005-10f)

GlobalGiving's fiscal year ends December 31st; "f" indicated forecast.
The sustainability metric used for GlobalGiving is net revenue (after project distributions) divided by total expenses.

For the purposes of this analysis, it is assumed that GlobalGiving consumed its philanthropic equity in the same year it was received.

Reflections and NFF's Role

GlobalGiving's philanthropic equity has helped to sustain the organization, leading to breakthrough partnerships in 2010 that mark strong progress towards fee-sustained growth. NFF Role: Strategic and financial due diligence, prospectus creation, advice on corporate structure and deal terms.

Social Return

The $8.7 million of philanthropic equity that GlobalGiving has raised since 2005 has allowed the organization to increase annual project distributions by $6.9 million. The organization projects that 2010 will yield $20.6 million more than the 2005 baseline, representing more than 100% of annual revenue leverage per year compared to equity.

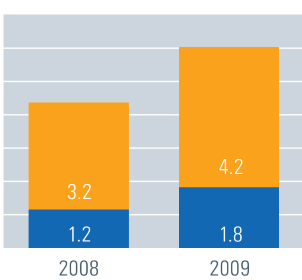
root capital
PIONEERING FINANCE FOR RURAL COMMUNITIES

About	Mission	Model	Growth Goals
Founded: 1999 Headquarters: Cambridge, MA Domain: International Economic Development	To pioneer finance for grassroots businesses that build sustainable livelihoods and transform rural communities in poor, environmentally vulnerable places.	Root Capital provides capital, financial training, and market connections to small and growing businesses – such as farmer and artisan associations – that are trapped in the "missing middle," or the gap between microfinance and corporate banking.	By 2013, triple its loan portfolio to $121 million in annual disbursements to more than 350 grassroots businesses representing one million small-scale farmers. Root Capital plans to cover 100% of its loan operating cost with earned revenue by 2013. The rest of the enterprise will be sustained by fee-for-service revenue and ongoing philanthropy.

Philanthropic Equity Campaign

Start of Campaign: 2009
Total Raised to Date: $8.6 MM in Philanthropic Equity

Thus far, Root Capital has consumed $4.2 million of the $8.6 million in philanthropic equity associated with the current campaign. $3.2 million of equity raised prior to the current campaign was consumed in 2008. With the current campaign, Root Capital also plans to raise $40 million in debt to support its growth. $8.5 million of this debt has been secured so far.



($MM)

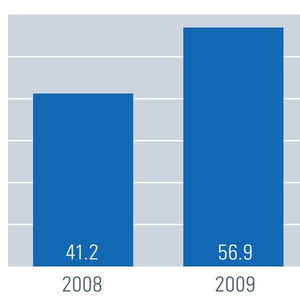
57% compound annual growth rate of business model revenue (2008-09)

■ Business Model Revenue (Net Earned and Financial Revenue)
■ Philanthropic Equity Consumed

Progress to Date

Prospectus Metric	Baseline: 2008	Current: 2009
Loans Disbursed	$41.2 MM	**$56.9 MM**
# Loans Disbursed	158	**149**
Sustainability of Finance Operations	53%	**64%**

Loans Disbursed



($MM)

38% compound annual growth rate (2008-09)

Root Capital's fiscal year ends December 31st.
The sustainability metric used for Root Capital is equal to net earned and financial revenue divided by total expenses for the lending operations of the organization.

Reflections and NFF's Role

Root Capital is currently on track to raise $15 million in philanthropic equity and is in the process of executing the early stages of its 2009-13 growth plan. It is possible that the campaign may be restructured to reflect new opportunities. NFF Role: Strategic plan vetting, help with prospectus creation, SEGUE accounting treatment, reporting methodology.

Social Return

Although in the early stages of its growth plan, Root Capital has used its philanthropic equity to help increase loan disbursements by $15.7 million from 2008 to 2009.

About

Founded: 1996
Headquartered: Portland, OR
Domain: Education Advocacy

Mission

Use the power of grassroots action to help all children get the excellent public education and strong support they need to thrive.

Model

By building local and statewide networks of grassroots support, Stand for Children focuses on helping children succeed in school, ensuring that public schools are adequately funded, and promoting education policy reforms. Stand for Children trains ordinary citizens to be leaders in addressing the issues that are most critical to children. Stand for Children's business model is sustained by local and national philanthropic support.

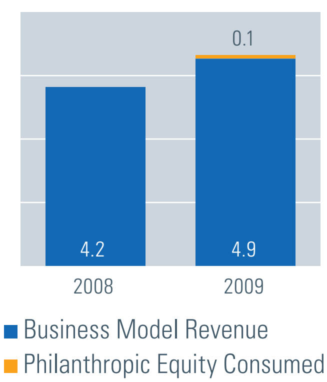
Growth Goals

Achieve nine statewide education reform victories, nine urban district education reform victories, and increase the number of affiliates with statewide legislative influence to seven. By 2012, cover 36% of expenses through earned revenue from state affiliates.

Philanthropic Equity Campaign

Start of Campaign: 2009
Total Raised to Date: $4.2 MM
Lead Investors: New Profit, Reuben Munger and David Nierenberg

Stand for Children is using a prospectus and shared reporting format to align funders. Thus far, Stand for Children has consumed $0.1 million of its philanthropic equity.



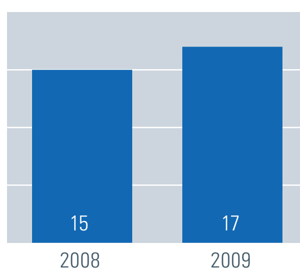
($MM)

16% compound annual growth rate of business model revenue (2008-09)

Progress to Date

Prospectus Metric	Baseline: FY08	Current: FY09
Education Reform Victories	15	**17**
State Affiliates	4	**6**
Sustainability Metric	112%	**83%**

Education Reform Victories



13% compound annual growth rate (2008-09)

Stand for Children's fiscal year ends December 31st.
Stand for Children's sustainability metric is equal to unrestricted revenue divided by total expenses.

Reflections and NFF's Role

In the early stages of its growth plan, Stand for Children is currently on track to meet its goals for education reform victories and its growth of affiliates with statewide legislative influence. NFF Role: Due diligence, prospectus creation, SEGUE accounting treatment, annual reviews.

Social Return

Stand for Children's philanthropic equity helped the organization deliver 17 education reform victories in 2009, leveraging over $1.1 billion on behalf of children in Oregon, Washington and Massachusetts.

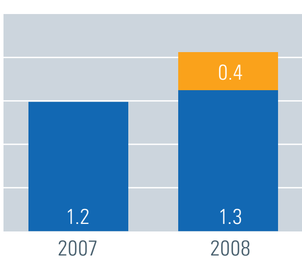
VisionSpring

About	Mission	Model	Growth Goals
Founded: 2001 Headquarters: New York, NY Domain: Economic Development	Reduce poverty and generate opportunity in the developing world through the sale of affordable eyeglasses.	VisionSpring empowers local entrepreneurs to launch their own businesses selling this powerful, affordable product in their communities. Each "Vision Entrepreneur" receives his or her own Business in a Bag, a sales kit containing all the products and materials needed to market and sell eyeglasses.	During five-year period ending 2012, facilitate 689,000 pairs of reading glasses sold, while enhancing livelihoods for 5,200 local entrepreneurs and increasing annual earned revenue almost five-fold.

Philanthropic Equity Campaign

Start of Campaign: 2008
Total Raised to Date: $3.2 MM
Lead Investors: Skoll Foundation ($0.8 MM), Mulago Foundation ($0.5 MM)

The campaign is ongoing and uses a prospectus and shared reporting format to align funders. VisionSpring rigorously tracks the use of philanthropic equity in its audited financial statements. Through the end of 2008, VisionSpring had consumed $0.4 MM of its philanthropic equity. (Consumption values for 2009 are not yet available.)



($MM)

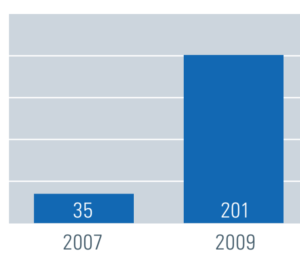
9% compound annual growth rate of business model revenue (2007-08)

■ Business Model Revenue (Net Earned and Financial Revenue)
■ Philanthropic Equity Consumed

Progress to Date

Prospectus Metric	Baseline: 2007	Current: 2009
Reading Glasses Sold	35,000	**201,000**
Fully-loaded Cost Per Pair	$16.90	**$7.01**
Vision Entrepreneurs	686	**5,400**
Sustainability Metric	9%	**17% (est)**

Reading Glasses Sold (K)



140% compound annual growth rate (2007-09)

VisionSpring's Fiscal Year ends December 31st.
VisionSpring's sustainability metric is equal to earned revenue divided by total expenses.

Reflections and NFF's Role

VisionSpring is progressing well towards achieving its hybrid fee-for-service/philanthropic business model for sustainability.
NFF Role: Due diligence, prospectus creation, SEGUE accounting treatment, annual reviews.

Social Return

VisionSpring has used its philanthropic equity to expand operations to a point where they sell 166,000 more reading glasses per year than the 2007 baseline. VisionSpring estimates that its reading glasses increase two-year earnings for its customers by an average of $106. This implies that VisionSpring's philanthropic equity has helped increase customers' earnings by approximately $23 million.

VolunteerMatch.org

About

Founded: 1994
Headquarters: San Francisco, CA
Domain: Volunteerism / Civic Engagement

Mission

Strengthen communities by making it easier for good people and good causes to connect.

Model

VolunteerMatch offers a variety of online services to support a community of nonprofit, volunteer and business leaders committed to civic engagement.

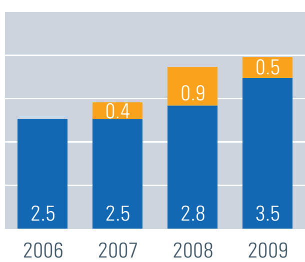
Growth Goals

By 2012, broker 870,000 high quality volunteer referrals to 92,000 diverse social purpose agencies nationwide. $6 million of earned service revenues from corporations and nonprofits, combined with $2 million of individual donations from the website, will cover 100% of operating expenses by 2012.

Philanthropic Equity Campaign

Start of Campaign: 2007
Total Raised to Date: $4.2 MM
Lead Investors: Atlantic Philanthropies ($2.5 MM), Surdna Foundation ($0.5 MM)

VolunteerMatch is using a prospectus and shared reporting format to align funders. VolunteerMatch rigorously tracks the use of philanthropic equity in its audited financial statements using the SEGUE accounting methodology. Thus far, VolunteerMatch has consumed $1.8 MM of its philanthropic equity.



Business Model Revenue
Philanthropic Equity Consumed

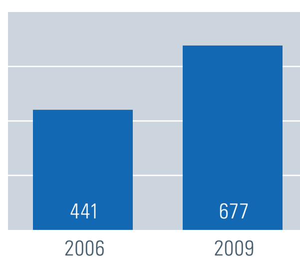
($MM)

11% compound annual growth rate of business model revenue (2006-09)

Progress to Date

Prospectus Metric	Baseline: 2006	Current: 2009
Volunteer Referrals	441 K	**677 K**
Value of Volunteer Hours	$294 MM	**$472 MM**
Member Agencies	45 K	**74 K**
Sustainability Metric	58%	**93%**

Volunteer Referrals (K)



15% compound annual growth rate (2006-09)

VolunteerMatch's fiscal year ends December 31st.
VolunteerMatch defines its sustainability metric as ordinary revenue divided by ordinary expenses.

Reflections and NFF's Role

VolunteerMatch is on track to achieve its hybrid fee-for-service/ philanthropic business model for sustainability by 2012. A consolidation of enterprise-level reporting has significantly reduced resources required for reporting to funders. Sustainability has been enhanced by increased operating efficiencies. NFF Role: Due diligence, prospectus creation, SEGUE accounting treatment, annual reviews.

Social Return

VolunteerMatch's $4.2 million of philanthropic equity has helped the organization direct volunteer activity with an estimated social value of $472 million in 2009—$178 million more than the 2006 baseline, suggesting a more than 40-fold social return on equity per year.

About

Founded: 2000
Headquarters: Boston, MA
Domain: Workforce Development

Mission

Close the Opportunity Divide by providing urban young adults with the skills, experience, and support that will empower them to reach their potential through professional careers and higher education.

Model

Year Up is a one-year, intensive training program that provides urban youth with 6 months of technical and professional skills and college credits and 6 months of a corporate internship. Operations are supported by a combination of corporate internship revenues and local and national philanthropy.

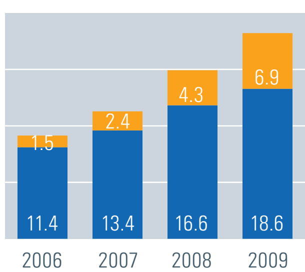
Growth Goals

By 2011, serve 1,602 at-risk students, maintaining a 75% success rate of placement into $30,000 per-year jobs that stick. National operating expenses will be covered by a $350K contribution from each site and $1.5 MM of national philanthropy.

Philanthropic Equity Campaign

Start of Campaign: 2007
Total Raised to Date: $19.3 MM
Lead Investors: Jenesis Group ($6 MM), Strategic Grant Partners ($1.4 MM), New Profit Inc. ($1 MM)

The campaign was completed in nine months using a prospectus and shared reporting format to align funders. Year Up rigorously tracks the use of philanthropic equity in its audited financial statements using the SEGUE accounting methodology. Thus far, Year Up has consumed $15 MM of its philanthropic equity.



($MM)

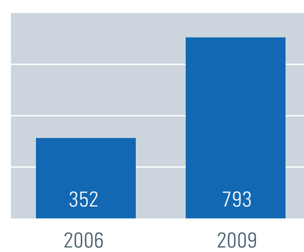
18% compound annual growth rate of business model revenue (2006-09)

■ Business Model Revenue (Net Earned and Financial Revenue)
■ Philanthropic Equity Consumed

Progress to Date

Prospectus Metric	Baseline: 2006	Current: 2009
Students Served	352	**793**
$ Spent per Student	$25,278	**$30,630**
Sustainability Metric	N/A	**74%**

Students Served



31% compound annual growth rate (2006-09)

Year Up's fiscal year ends December 31st.
Year Up's sustainability metric equals the sum of internship revenues and local public support divided by total expenses.

Reflections and NFF's Role

Year Up experienced a sustained increase in on-going fundraising after the campaign, resulting in a slower burn of philanthropic equity. Philanthropic equity gave Year Up the flexibility to slow its growth in 2009 in response to the economic climate. The organization is still on track to open 8 sites and meet 2011 targets. Year Up's management team used philanthropic equity to deploy funds to where they were most needed—supporting new sites and the national platform. NFF Role: Due diligence, prospectus creation, SEGUE accounting treatment, annual reviews.

Social Return

Year Up's $19.3 million of philanthropic equity has enabled the organization to increase annual students served by 441 compared to 2006. Cumulatively, Year Up has thus far served 895 students above their 2006 baseline number of students served.

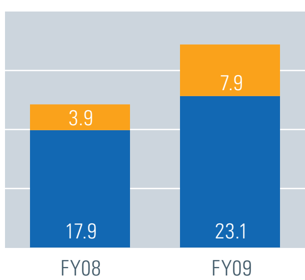
YES Prep Public Schools

About	Mission	Model	Growth Goals
Founded: 1995 Headquarters: Houston, TX Domain: Education	Dramatically increase the number of low-income Houstonians who graduate from four-year colleges prepared to compete in the global marketplace and give back to their communities.	YES Prep Public Schools is a charter management organization (CMO) that operates 6th-12th grade, open-enrollment charter schools in the Houston area. The model is sustained by a combination of federal and state education funds, student activity fees, community support, and philanthropic fundraising.	Expand low-income student enrollment at YES Prep charter schools from 2,600 to 10,000 by 2020 while growing to 13 schools in operation and maintaining high levels of student achievement and college readiness.

Philanthropic Equity Campaign

Start of Campaign: 2009
Total Raised to Date: $22 MM
Lead Investors: Arnold Family Foundation ($10 MM), Charter School Growth Fund ($8 MM), Michael & Susan Dell Foundation ($4 MM)

YES Prep is using a prospectus and shared reporting format to align funders. Thus far, YES Prep has consumed $11.8 MM of its philanthropic equity.



■ Business Model Revenue
■ Philanthropic Equity Consumed

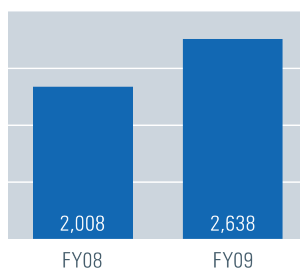
($MM)

29% compound annual growth rate of business model revenue (FY08-09)

Progress to Date

Prospectus Metric	Baseline: FY08	Current: FY09
Students Enrolled	2,008	**2,638**
Schools in Operation	5	**7**
Graduates Admitted to College	100%	**100%**
Sustainability Metric	88%	**85%**

Students Enrolled



31% compound annual growth rate (FY08-09)

YES Prep's fiscal year ends August 31st.
YES Prep's sustainability metric equals the proportion of total expenses covered by public revenue.

Reflections and NFF's Role

In the early stages of its growth plan, YES Prep is on track to achieve its student enrollment and school growth goals while maintaining high student achievement levels. NFF Role: Due diligence, prospectus creation, SEGUE accounting treatment, annual reviews.

Social Return

By allowing YES Prep to expand to 10,000 students, its $38 million of philanthropic equity will give rise to over 1100 low-income Houston students going to college each year. Even if each college-goer is only "worth" an additional $10,000 to society, then the investment will generate close to a 30% social return on equity per year.

Recent Campaigns

project health

About	Mission	Model	Growth Goals
Founded: 1996 Headquarters: Boston, MA Domain: Health Care	Improve health outcomes for low-income Americans by redefining health care to include access to food, housing, and other basic resources as a standard part of patient care.	Project HEALTH enables doctors to "prescribe" food, housing, or other resources for their patients, just as they do medication. Patients take these prescriptions to Family Help Desks in clinic waiting rooms, where college volunteers "fill" them by connecting patients with the critical resources they need to be healthy. The organization is sustained by a combination of income earned from clinical partners and ongoing philanthropy.	By 2014, create over 24,000 successful resource connections through 26 Family Help Desks in 8 cities. While Project HEALTH's campaign will focus on proof of concept and refining its program model, it also includes a goal of increasing earned income to cover 20% of total expenses.

Philanthropic Equity Campaign

Start of Campaign: 2010
Total Raised to Date: $8 MM

Project HEALTH has also received challenge pledges for up to $2 million—to be fulfilled upon hitting $7 and $10 million in other commitments.
Project HEALTH's fiscal year ends August 31st.

Progress to Date

Prospectus Metric	Baseline: FY09
Clients Served	4,487
Volunteers Family	591
Help Desks	18

college summit
connect to your future

About	Mission	Model	Growth Goals
Founded: 1993 Headquarters: Washington, D.C. Domain: College Access	Increase the college enrollment rate of low-income students by ensuring that every student who can make it *in* college makes it *to* college, and by putting college access "know-how" and support within the reach of every student.	College Summit strengthens the capacity of schools to prepare students for success after high school by equipping educators with tools and training, facilitating a peer-led, college-going school culture, and tracking data to inform the ongoing program. Partnerships with schools, districts, and colleges are key to the model. The business model is sustained by a combination of fee-for-service earned income and ongoing philanthropy.	By 2015, serve more than 40,000 seniors and maintain the ability to increase college enrollment rate by more than 20% among participating seniors. Through fee-for-service programs, College Summit will cover 100% of direct service variable costs.

Philanthropic Equity Campaign

Start of Campaign: 2009
Total Raised To Date: $20.6 MM

College Summit's fiscal year ends April 30th.

Progress to Date

Prospectus Metric	Baseline: FY09
High School Seniors Served	15,500
Full Cost per Senior	$1,290
Impact on College Enrollment Rate	+20%

Notes

1. The Sustainable Enhancement Grant (SEGUE) accounting methodology is a set of grant stipulations and accounting techniques that clearly delineate the flows of business model revenue and philanthropic equity in an organization's audited financial statements. These techniques allow providers of philanthropic equity and other stakeholders to track the amount of capital that is deployed for the purposes of building the organization versus revenue attracted to fund program execution.

2. Guidestar Peer Cohort reflects Form 990 data from 3,749 organizations that matched the following criteria: 2006 budget size of $1 million to $20 million; revenue data available for each of years 2006, 2007 and 2008; NTEE codes of J, O, P2X, P3X, P4X, P99 and S.

3. It is important to note that many of the organizations in the Guidestar Peer Cohort did not aspire to grow rapidly during the 2006 to 2008 time period.

4. For each client, "Growth Multiple" was calculated separately as the ratio of the "Current" level of program delivery to the "Baseline" level of program delivery. "Average Growth Multiple" was then calculated as a straight average of Growth Multiples across the clients for which multi-year data was available in that year.

5. For each client, "CAGR" was calculated separately as the compound annual growth rate in service delivery during the period spanning between the Baseline year and Current year. "Average CAGR" was then calculated as a straight average of CAGRs across the clients for which multi-year data was available in that year.

6. Example: Among the six organizations for which multi-year data was available in 2008, the straight average of Growth Multiples was 2.9x.

7. For each client, "Growth Multiple" was calculated separately as the ratio of the "Current" Business Model Revenue to the "Baseline" Business Model Revenue. "Average Growth Multiple" was then calculated as a straight average of Growth Multiples across the clients for which multi-year data was available in that year.

8. For each client, "CAGR" was calculated separately as the compound annual growth rate in Business Model Revenue during the period spanning between the Baseline year and Current year. "Average CAGR" was then calculated as a straight average of CAGRs across the clients for which multi-year data was available in that year.

9. Example: Among the six organizations for which multi-year data was available in 2008, the straight average of Growth Multiples was 1.7x.

10. Business Model Revenue excludes Philanthropic Equity. For some clients, it further excludes extraordinary revenues that were raised using methods that differ from the revenue generation methods intended to ultimately sustain the organization.

11. For each client, "Revenue Leverage" was calculated separately as the ratio of the Change in Business Model Revenue (Current versus Baseline) to the amount of Philanthropic Equity raised, expressed as a percent of the Philanthropic Equity raised. "Ongoing Annual" reflects this ratio for the most current period. "Cumulative" was calculated by summing up the "Ongoing Annual" accomplished by the client across each of the years during the investment period, expressed as a decimal.

12. "Average" represents a straight average of "Ongoing Annual" and "Cumulative", respectively, across the clients for which multi-year data was available in that year.

13. "Pooled Average" was calculated by summing the "Change" in Business Model Revenue across the nine clients for which multi-year data was available and then dividing that sum by the sum of "Philanthropic Equity Raised" in total across those nine organizations. It can be interpreted as a weighted average, where the weight is Philanthropic Equity.

14. Example: In 2008, across the clients for which multi-year data was available, Current Business Model Revenues were a sum total of $14 million higher than the sum total of the Baseline Business Model Revenues across those nine clients.

Nonprofit Finance Fund™

About Nonprofit Finance Fund

As one of the nation's leading community development financial institutions (CDFI), Nonprofit Finance Fund (NFF) makes millions of dollars in loans to nonprofits and pushes for fundamental improvement in how money is given and used in the sector. Since 1980, we've worked to connect money to mission effectively so that nonprofits can keep doing what they do so well.

We provide a continuum of financing, consulting, and advocacy services to nonprofits and funders nationwide. Our services are designed to help great organizations stay in balance, so that they're able to successfully adapt to changing financial circumstances—in both good and bad economic times—and grow and innovate when they're ready. In addition to loans and lines of credit for a variety of purposes, we organize financial training workshops, perform business analyses, and customize our services to meet the financial needs of each client. For funders, we provide support with structuring of philanthropic equity and program-related investments, manage capital for guided investment in programs, and provide advice and research to help maximize the impact of grants.

Visit us! nonprofitfinancefund.org

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The Rockefeller Foundation

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