

## David Craft Interview Transcript

Ann Phillips: The first question that I have is: Why would you advise not for profits to undergo organizational changes so to stray from the one that they already have established?

David Craft: Why would they undergo an organizational change? I mean ultimately just kind of comes down to matters of capacity. It's kind of just like any other considerations that maybe other organizations might take regarding mergers. If there's an opportunity to be able to provide the services at a bigger scale or to maybe provide more resources to your employees, maybe more pay or more benefits or something of that nature as a result of merging with another organization, that might be a reason why there will be a need for organizational change.

David Craft: There's the dissolution aspect and dissolution could be as a result of just an organization realizing that whatever its intended purpose or services, activities are they're no longer as much of a need anymore, maybe because of changes in society or maybe something of another nature that has lessened the need for the services. Something that comes to mind that I think you were here during that semester, there is a not for profit that was formed a while ago for the purposes of helping indigent people who are incarcerated obtain money for bail.

David Craft: When the New York law changed removing the cash bail system that pretty much automatically made their whole mission and purpose obsolete. So they ended up dissolving and then transferring the assets of the organization to another not for profit that could make better use of it. Those are some reasons why people might consider organizational changes.

Ann Phillips: Along those lines, when there's multiple nonprofits that all have the same purpose and mission, would you recommend them merging or consolidating, joining forces to solve fundraising problems and to just to better serve the one purpose?

David Craft: I would say yes, I would recommend some form of merger amongst those nonprofits. Especially nowadays funding might be hard for organizations to come by and if you have multiple organizations fighting for the same grants or limited amount of grants, yes, it could make better sense for those nonprofits to merge.

David Craft: Certainly there's things that have to be thought about you know beyond just the fundraising aspect, because ultimately it's also about the culture of the organization. There might be multiple nonprofits that are doing the same thing, but they might have a different way about going about it, from cultural aspect of it. That's something that sometimes these nonprofits do have to consider because if there are those cultural differences between the organization's leadership, you don't want to start a merger process that is long and costly and takes up a lot of resources that can ultimately falter because the leaders of the organization just don't see eye to eye on how to provide the ways or methods they go about providing the

services or the methods of how they operate internally as an organization. It's a good idea to recommend some form of consolidation amongst nonprofits if they're doing the same thing and going after the same funding resources to help them be able to deliver their services better by consolidating.

Ann Phillips: Along the lines of what you're saying about just the culture of the different nonprofits, what other disadvantages because you foresee with mergers and consolidations of nonprofits?

David Craft: In potentially the delivery of the services to the Community if you have multiple nonprofits merging into one and now there's only one agency that's really providing the services to the Community, you run the risk of the quality of those services diminishing, because ultimately that now those nonprofits don't really have that competition level that sometimes is good to have even amongst nonprofits to ensure that the services that are being provided are high quality

David Craft: You can also lose the element of maybe a grassroots nature, when it comes to when it comes to merging nonprofits and it becomes a little bit too corporate and sometimes that could be an issue for sharing communities. Sometimes some organization being smaller and having more of a connection to Community helps in certain ways when it comes to advocacy efforts, or just in connecting with the Community. So if you if you merge, you might end up losing that sort of connection with the Community. As a result, it might fail to incorporate. Community members might become less engaged, as a result, with that particular organization beyond just the services.

Ann Phillips: That makes sense.

David Craft: I have heard nonprofits have some concerns when we talk about when they talk about mergers or some form of consolidation is from the funders' perspective. Sometimes nonprofits are concerned that funders might use that see the consolidations as reasons to decrease the amount of funding that they provide because they're like, "well if there's only one of you, maybe we don't need to provide as much funding." Just because organizations consolidate that doesn't mean the needs lessen become cheaper, as a result, if anything, maybe the needs are just as great or even greater as a result of the organization's building their capacity and so funders might not really understand that, and so they might start cutting back on their funding and then that might end up impacting the ability of the nonprofit to be able to provide the same level of services to the Community, so I think those are probably some disadvantages that I've heard about or observed.

Ann Phillips: That definitely makes sense. Our project is going to be geared towards people who are involved in nonprofit organizations that don't necessarily have legal knowledge, so all of those resources we've come across that discuss mergers and consolidations are either completely for lawyers or they're like 50 pages long, in terms of like advice and advantages and disadvantages, so our goal is to make a project that's like short and to the point and just

highlights on the important topics that people need to think about when considering a merger or consolidation. One of our questions also is, What potential issues would a nonprofit face off the bat, starting to merge or consolidate with another nonprofit?

David Craft: I think the biggest thing is just the leadership. You're talking about the board's having to come to an agreement. Initially, they might like the idea of consolidation, but then again when you really get into, ultimately, one of those entities are going to have to dissolve they're going to have to lose their control of you know whether it's their employees or their assets and things of that nature, and so when these leaders really start thinking about that, then there's this battle. Who's going to lose? Who's really going to lose the control at the end of the day? That's really one of the bigger issues. From a legal perspective, one of the things that are from a technicality perspective, I think one of the issues might be more about if an organization hasn't done a good job with record keeping; noting decision making processes, accounting, etc. Those can be an issue for the other organization to understand fully where the nonprofit stands in terms of what assets it controls, what liabilities it may have, what policies might exist within the organization.

Ann Phillips: Not everything's up to standard.

David Craft: If you don't have an organization that's crossing its t's and dotting its i's throughout the process, it could create a prolonged process for the merger.

David Craft: But, again, I think the biggest issue is comes out to his leadership at the end of the day.

Ann Phillips: Okay, awesome. We're also focusing on fiscal sponsorships for emerging nonprofits and new nonprofits. Are there certain nonprofits that you would recommend, starting with a fiscal sponsorship, more so than others, or do you think it's a good route for any new nonprofit to take? What are your thoughts about that?

David Craft: I think all new nonprofits, especially ones who don't have a well-developed business plan, they should all do fiscal sponsorships at first. The concern I have is that people don't really understand that a nonprofit still is a business at the end of the day. Even though, yes it is formed for a charitable or social purpose it's still a business. You have revenue, you have expenses, you have to keep track of, and how are you going to get your revenue, who are you paying, etc. And I don't think people fully comprehend that, and so they might have a charitable project that they want to accomplish or mission that they want to accomplish and they talked to a few people that say "yeah, great. I'll be happy to give you money just form a nonprofit" and they think, okay that's what I need to do because someone promised them money if they did. A nonprofit is an entity that needs to be organized and managed; you have to have records, you have to have meetings, you have to have financial reporting and so it's bigger than just the program. So yes, I strongly strongly strongly believe that any new nonprofit, if it just has an idea or concept, should utilize a fiscal sponsorship, while it is still developing its

idea and concept until they can prove that what they're trying to do is something that people need.

David Craft: You have to show funders, and actually I was reading an email from a funder the other day, they want to see well thought out business plans they want to make sure their money is going to something that's going to make an impact. And so, just because you have a charitable focus of what you're trying to do, does that mean it's going to make an impact? You won't really know until you actually give it a try to see if you're able to produce some sort of result through your program or your service.

David Craft: Yes, having a fiscal sponsor can help with that because you're able to just focus on the actual program or service that you want to develop without having to deal with some of the legal formalities of forming a not for profit, applying for tax exemption, but you still are able to obtain the benefits of tax exempt status because you can always just use that fiscal sponsor's tax exemption and provide it to donors to say "here you go, as long as you make a donation to this entity you'll still receive your charitable deduction benefits for tax purposes."

Ann Phillips: That makes sense, thank you. Along those lines for a new nonprofit, if they have very limited knowledge about what a fiscal sponsorship is are there some points or factors that they should consider when starting a fiscal sponsorship? Through our research, the fiscal sponsor holds on to the funds of the new organization, some fiscal sponsors perform management roles in the new organization. What things should the forming organization think about?

David Craft: The fact that the fiscal sponsor is the one that has to hold on to the funds is a big part. You want to make sure as a nonprofit that the organization you plan to utilize as a fiscal sponsor is a good steward of funds. They do a good job of maintaining separate accounts, that they're not commingling funds with any unrelated activities or other organizations, that they do a good job of financial record keeping and so forth, because you don't want to give your money to an organization or have someone end up giving their money to your fiscal sponsor and that that money ends up being utilized to pay the bills of the fiscal sponsor. That's something that's definitely a big thing to keep in mind and consider.

David Craft: The other part is about: Does the fiscal sponsor have experience doing these types of relationships? It's not to say that you can't use someone who hasn't done it but ideally if you can find someone who has experience of managing of the process, understanding how to distribute the funds to the project or the program that is being sponsored. I think that's a big thing.

David Craft: Do they have the experience of being able to report the funding on their 990 returns? That's the thing about fiscal sponsor leadership, not only are you responsible for holding onto the money and making sure to utilize for the purposes as intended, but you also have to report it to the IRS on your annual 990 so you want to make sure that fiscal sponsor has the ability and capacity to do that.

David Craft: You want to also make sure that, depending on the relationship, you'll want to ask questions as someone entering into the relationship: What kind of control will that organization have over the project? Sometimes the way some fiscal sponsors look at is like, yeah we'll be a fiscal sponsor but essentially you'll become a project of our organization, so we'll control your program pretty much become like an employee and so you'll do what we have to say. If you're someone who wants to have control over how the program is running, the stuff that you'll want to look for more fiscal sponsorship who's going to just handle the fiduciary monetary responsibilities and reporting and not so much about delivery of the program aspects of it.