

Nonprofit Finance Fund: Where Money Meets Mission

NFF envisions a world where capital and expertise come together to create a more just and vibrant society

We unlock the potential of mission-driven organizations through

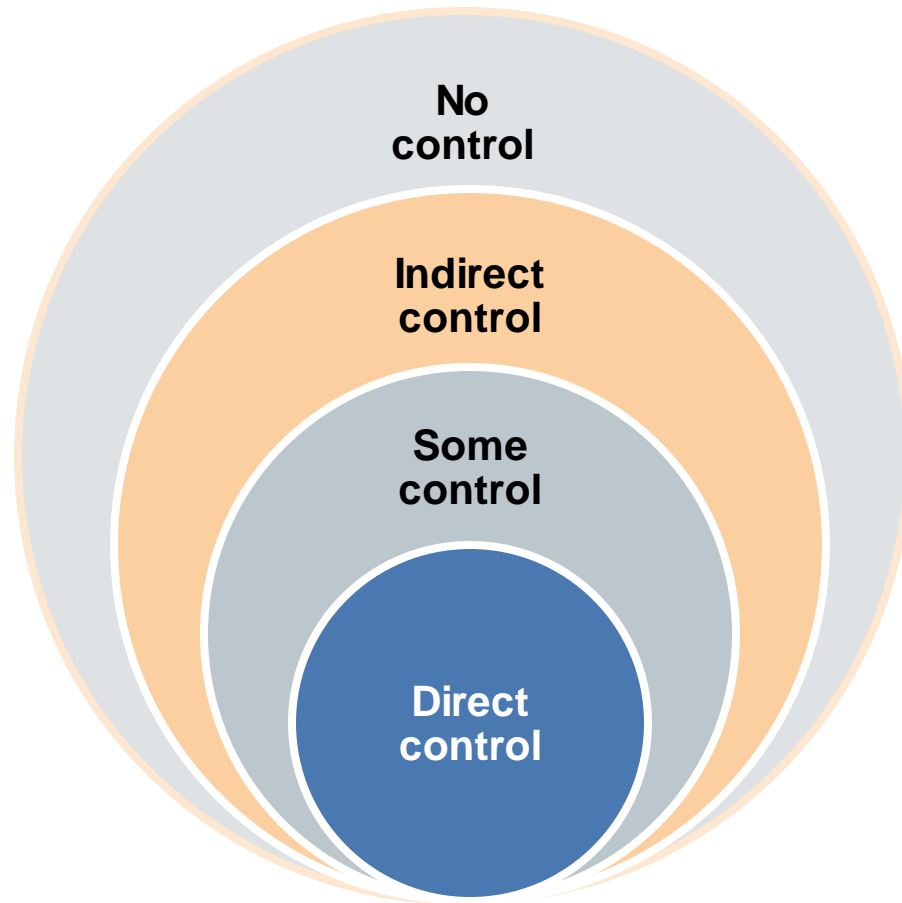
- **Tailored investments**
- **Strategic advice**
- **Accessible insights**

Guided by our Core Values



Understand your Situation and Establish Priorities

What's within your control?

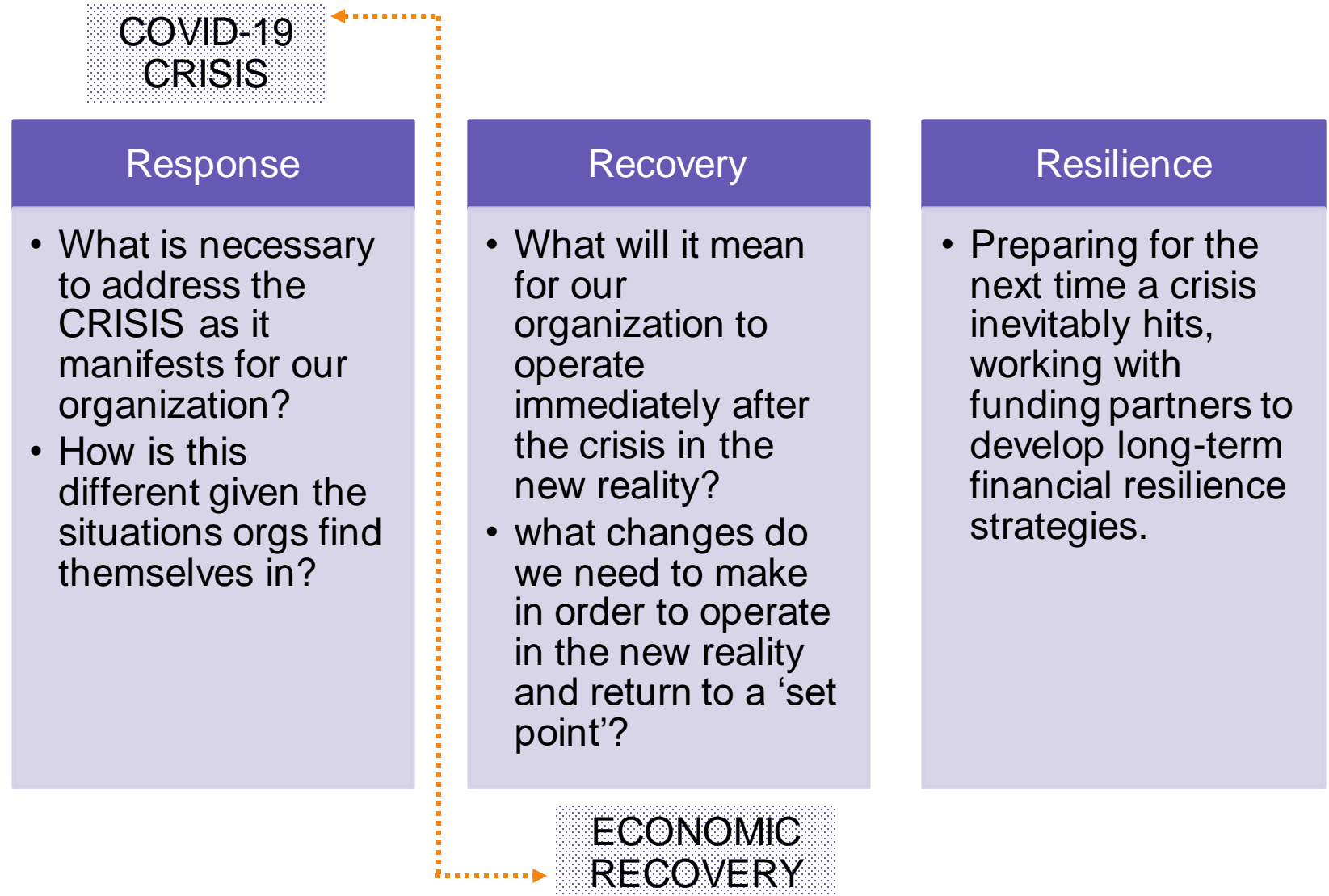


Understand your Situation and Establish Priorities

Impact on Organizational Strengths?



As the sector seeks to react to the current pandemic, nonprofits will have three **concurrent** needs



COVID-19 Response

Assessing impact upon organizations

	Operational	Limited/Reduced Service	Paused
Description	Organizations that can continue operations. Typically orgs that keep us alive.	Organizations that can continue SOME operations or modify operations to accommodate SOME clients.	Organizations that must shut down because they are unable to deliver services
Initial Questions	<ul style="list-style-type: none"> • Is there an increase in demand? • Are there emergency resources or reserves available? • Have staff taken on additional personal and organizational obligations? 	<ul style="list-style-type: none"> • Is the organization providing services? Are you getting paid for them? • Is there enough cash on hand? • Has staff been furloughed? 	<ul style="list-style-type: none"> • What impact will this have on staff? • What is health of the organization's balance sheet?
Considerations	Length of crisis and impact on demand.	Restart costs? Viability?	Restart costs? Viability?

Most arts and cultural organizations have paused operations and are facing a financial crisis



Near-Term Goal for Paused Organizations: Safe Harbor

The concept that organizations need a way to ‘anchor’ until it is feasible to reengage in operations.

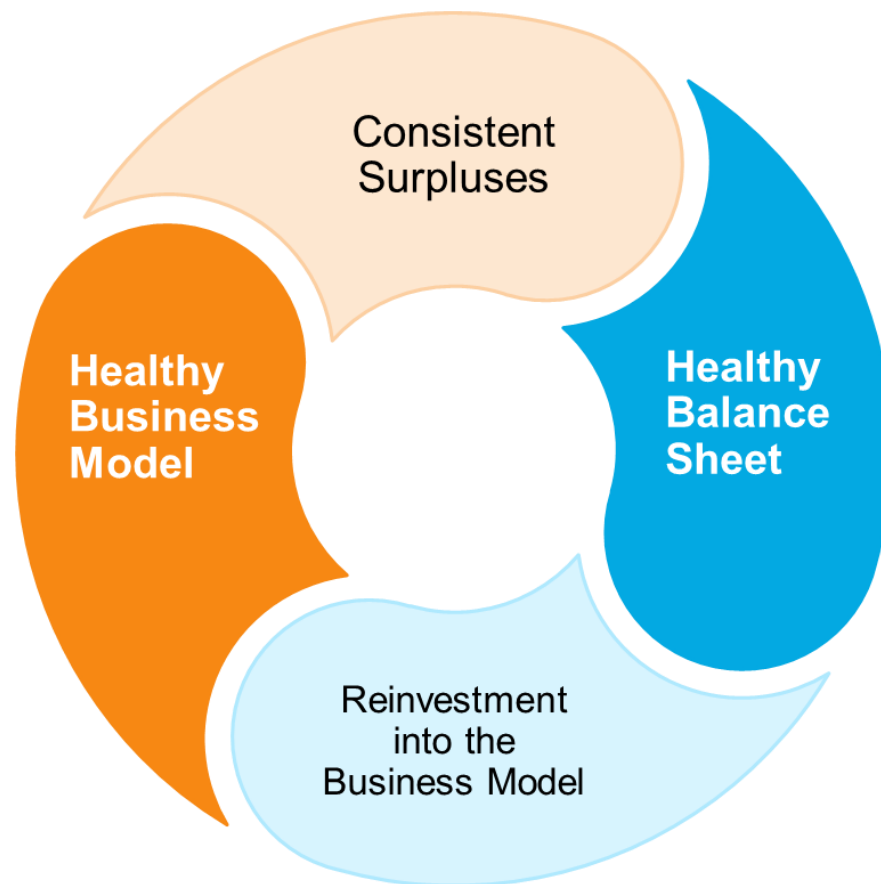
It will look different for each organization, but at minimum stewarding:

- baseline operations
- essential functions (relationship management, facilities, human resources, artistic/ creative, communications)
- the ‘back-office’



The Ability to Absorb Risk Will Be Different for Each Organization

An organization's ability to **adapt** is influenced by the resources it has on hand.



How to Enter Into Scenario Planning

YES!



Not yet!



Scenario Planning requires us to do three things: 1) take in existing data about programs, operations, finances, people, etc. 2) imagine those things reconfigured under different sets of ‘what ifs’ and 3) project the ‘what if’ outcomes in written plan.

We are best served by beginning this exercise in discussion with trusted colleagues, board members and partners.

Scenario planning: Starting questions and reflections

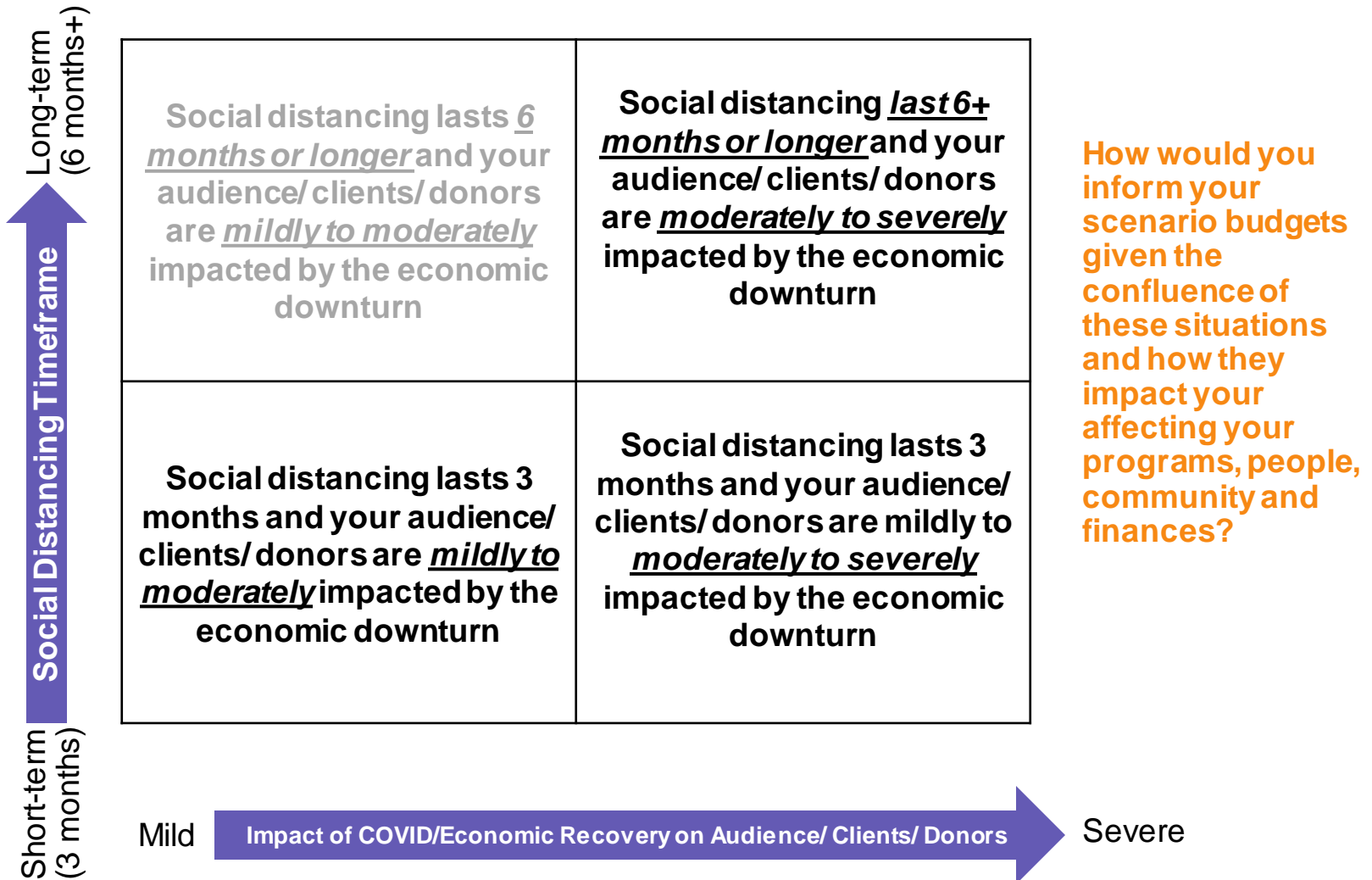
Taking stock of where we are now

How have operations and programs changed due to the pandemic and social distancing? Where are our areas of immediate risk and variability?

- How long do we have to operate, given the changes to revenue streams and expenses? (Cash flow projection!)
- Given this, are there any programs and operational activities can continue as is or in a re-imagined way? Which programs or activities must reduced, and which need to pause altogether?
- What are the revenue and expense implications?
- How will the programmatic and operational changes affect how much time we have? (Cash flow projection!)
- How does our financial situation change with potential funding sources, loans, etc.? will they come soon enough? (Cash flow projection!)
- Are there opportunities for making changes that we've been wanting to make that, ironically, this current crisis makes easier to push through?

Scenario Planning in the age of COVID-19

Considerations when timeframes and circumstances are uncertain



Revenue and Expense: What Can We Reasonably Predict Over the Next 3-6-9 Months?

Type	Revenue	Expenses
Foundation Grants	<ul style="list-style-type: none"> • Emergency revenue • Release of time or purpose restrictions 	<ul style="list-style-type: none"> • Probably no cost savings
Individuals	<ul style="list-style-type: none"> • Varied, likely dependent on personal financial situation of donor and size of donation request 	<ul style="list-style-type: none"> • Probably no cost savings
Special Events/ Fundraisers	<ul style="list-style-type: none"> • If scheduled from March – July, likely canceled already, lost revenue 	<ul style="list-style-type: none"> • Maybe some cost savings, but may have sunk costs in staff time and other non-refundable expenses
Program Fees	<ul style="list-style-type: none"> • May have at least some disruption of program fees unless able to seamlessly deliver online 	<ul style="list-style-type: none"> • Cost savings if program doesn't operate?
Investment Income	<ul style="list-style-type: none"> • Stock market declines reduce investment income and asset value 	<ul style="list-style-type: none"> • Probably no cost savings
Earned Income	<ul style="list-style-type: none"> • Experiencing declines, especially if reliant on others' disposable income or wealth 	<ul style="list-style-type: none"> • Some cost savings from cost of income generating activity

Financial Levers: What Kind of Control Do We Have Over Our Budget and Balance Sheet?

More Immediate



Takes longer

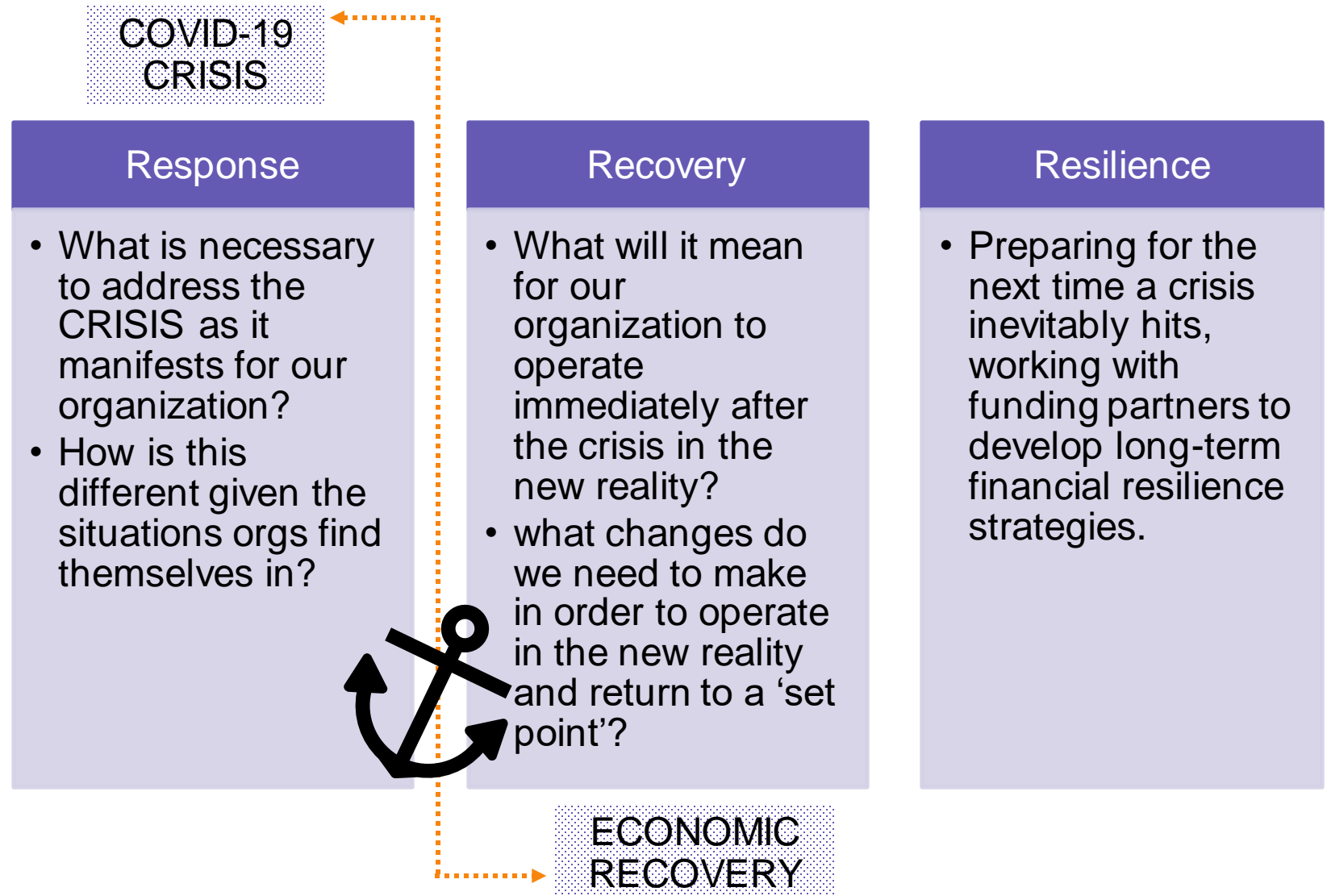
Budget Levers	Balance Sheet Levers
<p>Expenses: What is within your control? What's easier or harder to change? What can still maintain programmatically? What is most necessary to reconstitute operations in the future?</p>	<p>Cash & Reserves: (if available) Under what circumstances should you access reserves? Are they Board Designated?</p>
<p>Revenue: Does the crisis present any opportunities? Are there funders who can release restrictions? Advance funding earlier? Special fundraising?</p>	<p>Cash flow: What is the timing of your cash? Is a line of credit an option? Can you renegotiate repayment terms with vendors?</p>
<p>Profitability: What is our goal? Can we absorb a deficit? How much can we absorb?</p>	<p>Capital expenditures: Can you delay any facility projects, if necessary?</p>

Getting to Safe Harbor

What can we reasonably predict and what levers do we have given our imagined scenarios?

	Social distancing lasts 3 months and your audience/ clients/ donors are mildly to moderately impacted by the economic downturn	Social distancing lasts 3 months and your audience/ clients/ donors are mildly to moderately impacted by the economic downturn	Social distancing last 6+ months or longer and your audience/ clients/ donors are moderately to severely impacted by the economic downturn
Revenue: Individual donations	Core donors will remain		
Revenue: Foundations	A, B, C foundations have expressed support for the next 6 months		
Revenue: Events/ rentals	Assumption that events will cap at no more than 100		
Revenue: Classes	Transitioned to free online classes – is there a market for paid ?		
Revenue: Performance (self-produced)			
Expenses: Personnel	Applied for PPP		
Expenses: Contractors (1099)			
Expenses: Occupancy/ Utilities	Rent deferred but due – how we will pay?		
Expenses: Supplies			
Expenses: Other			

Safe Harbor, Ideally, Should Help Set-up Organizations For Recovery



Safe Harbor Goals

For organizations where operations are paused

- Maintain baseline operations, as defined by the executive team and board
- Ensure that essential functions are delivered
 - Relationship management – donors, funders, members
 - Facilities – repairs, emergencies, general maintenance
 - Human resources – submitting paperwork, etc.
 - Artistic/ creative – curatorial mandates, safety of collections, IP
 - IT, communications, marketing
 - Financial office

What will management/ board prioritize during this time?

Planning for reemergence into changed environment?

From Response to Recovery

Pause does not mean stop

Mission Impact	How are we envisioning that our mission will continue in a changed environment? <u>What do our current supporters, audiences, funders envision?</u> What will they support?
Degree of control	How can we be proactive in the outcome?
Capacity requirement?	Do we have the know-how, board and staff needed? Will investments be needed? How can we reach out to our community, partners, network during this time? What type of coordination is necessary?
Time horizon?	How long will this take? Urgency?
Risks?	Known risks that might hinder us from success? Additional data needed? Can we do this? Should we do this at all?
Financial Impact?	Upfront and ongoing costs? Revenues? Net income? What will this community, funding community support in the long run?

Scenario Budgeting in a Crisis

Using short-term budgets

3, 6, 9-month Budgets

- Allow for greater visibility and flexibility given uncertainty
- Budgets can be more easily customized to specific scenarios as social distancing measures are refined
- Allow for greater transparency and ease of financial storytelling

Tool for Storytelling

- ‘What happened?’ and ‘Why?’
- In light of extended closures and changes to programs and services, what can leadership do?
- Given what we know, how can we adjust today? What can we do to adjust tomorrow?



Scenario Budgeting in a Crisis

A 3, 6, 9-month projected budget can provide greater visibility and valuable time during a crisis

Conservative Assumptions when Building the Budget

- For revenue projections, this means “less than planned”
- For expense projections, this means “more than planned”
- Understand how balance sheet resources impact your ability to manage budget shortfalls

Budget Data Supports ‘Real Time’ Decision Making

- ‘What happened?’ and ‘Why?’
- In light of extended closures and changes to programs and services, what can leadership do?
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3, 6, 9 Month Budget Sample

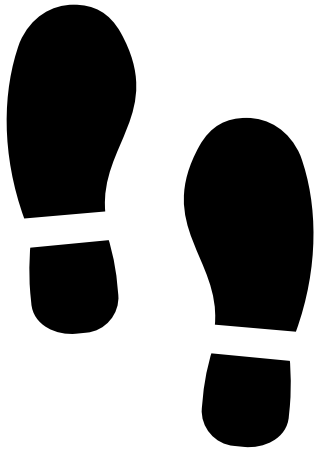
The time horizon of this crisis is unknown, but what assumptions can we make?

	FY 20 Budget	Year to Date Actuals	3-months June 2020	6-months September 2020	9-months December 2020
Revenue	<p>What are your priorities for the next 3, 6, 9-months.</p> <p><u>Consider:</u></p> <ul style="list-style-type: none"> ➤ Revenue Losses & Expense Cost Savings ➤ Emergency funding and revenue released from restrictions ➤ Increased expenses directly related to COVID19 mitigation efforts (protective gear, increased tech software and hardware cost) ➤ If your FY is slated to end at the 3-month mark, what does this crisis mean for your next fiscal year? 				
<i>Earned Income</i>					
Admissions					
Tuition and workshop fees					
<i>Contributed Income</i>					
Foundations					
Total Income:					
Expenses					
Personnel					
Consultant fees					
Travel					
Occupancy					
Total Expenses					
Surplus (Deficit)					

Scenarios Budgets for Multiple Changes and Options

ABC arts center						
Considerations for the next 3 months						
Numbers in 000s	2020 Revised	opening in august; slow for the rest of the year	Optimistic	opening after august; high confidence in community	Downside	low confidence in community despite opening in august
Unrestricted Revenue						
Contributed Revenue						
Foundations	\$150	all but 1 comitted	\$225	50% of original budget	\$75	final doesn't come in
Contributions	\$75	all board and known MDs	\$100	50% of original budget	\$60	
Special Events	\$5	no new	\$25	Operating at 75% post August	\$5	
Subtotal	\$230		\$350		\$140	
Earned Revenue						
Ticket Sales	\$15		\$25		\$0	
Membership	\$10		\$25		\$0	
Class Fees	\$30		\$50		\$0	
Space Rental	\$5		\$15		\$0	
Equipment Rental	\$0		\$0		\$0	
Subtotal	\$60		\$115		\$0	
Total Revenue	\$290		\$465		\$140	
Change from Budget Revenue						
\$			\$175		-\$150	

Tips for Scenario Budgeting in a Crisis



Nonprofit Finance Fund Tools and Resources:

<https://nff.org/covid-19-tools-and-resources-nonprofits>

Outlines assumptions

- Social Distancing
- Economic recovery
- Your organization's financial strength/ health
- Your organization's goal
- Range of scenarios

Clearly reflects impact of risks and opportunities

- Programs
- Staffing
- Operating infrastructure
- Considerations for recovery

Is Conservative

- More expenses than you think you'll need
- Be consistent

Is short term: 3, 6, 9 month

- Adaptable
- Easy to read
- Easy to access

Scenario Planning and Budgeting

Scenarios define the potential **financial impact of risks and opportunities.**

- Help to articulate current knowns (and unknowns)
- Identify the questions to be addressed, key variables or drivers of change, range of potential year-end results, the risks associated with alternative scenarios, and contingencies and their triggers
- Provide leadership a chance to be thoughtful about big decisions that need to be made quickly and under pressure.

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Questions? Feedback?



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