

Webinar

Managing Risk



Facilitated by

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Nonprofit Finance Fund

June 1, 2021
1 pm ET



Acknowledgment of Indigenous Territories



- We invite you to share in the chat the Indigenous Territory you are joining us from:

<https://native-land.ca/>

Nonprofit Finance Fund: Where money meets mission

NFF envisions a society where money and knowledge come together to support just and vibrant communities.

Help mission-driven organizations achieve their communities' aspirations through

- **Tailored capital**
- **Strategic Advice**
- **Accessible Insights**

Guided by our Core Values →



Learning Goals



Develop awareness of different types of organizational financial risks



Build skills to manage risks with an aim towards long-term financial health



Strengthen ways to communicate your long-term needs to stakeholders

Meeting Agreements

Contribute to a meaningful learning experience

- Every experience is valid; we are here as peers to learn from each other
- Invitation to share freely and candidly, and ask questions
- Take care of your needs first

Leveraging All Your Strengths For Long-term Health

- **Relationships & Reputation** – our partnerships, networks and reputation, and access to community resources
- **People & Skills** – the skills, expertise, experiences of staff, board and volunteers
- **Data & Know How** – how we know what we do works, how we understand our mission impact
- **Financial** – the alignment of financial resources to pay for what we do - delivering and supporting the mission in the immediate and longer term



What is Risk?

RISK: “The possibility of an event occurring that will have an impact on the achievement of objectives.”

-Institute of Internal Auditors



What is Risk?

OPERATING

- Ongoing in nature
- Part of day-to-day business

VS.

STRATEGIC

- Planned choices

INTERNAL

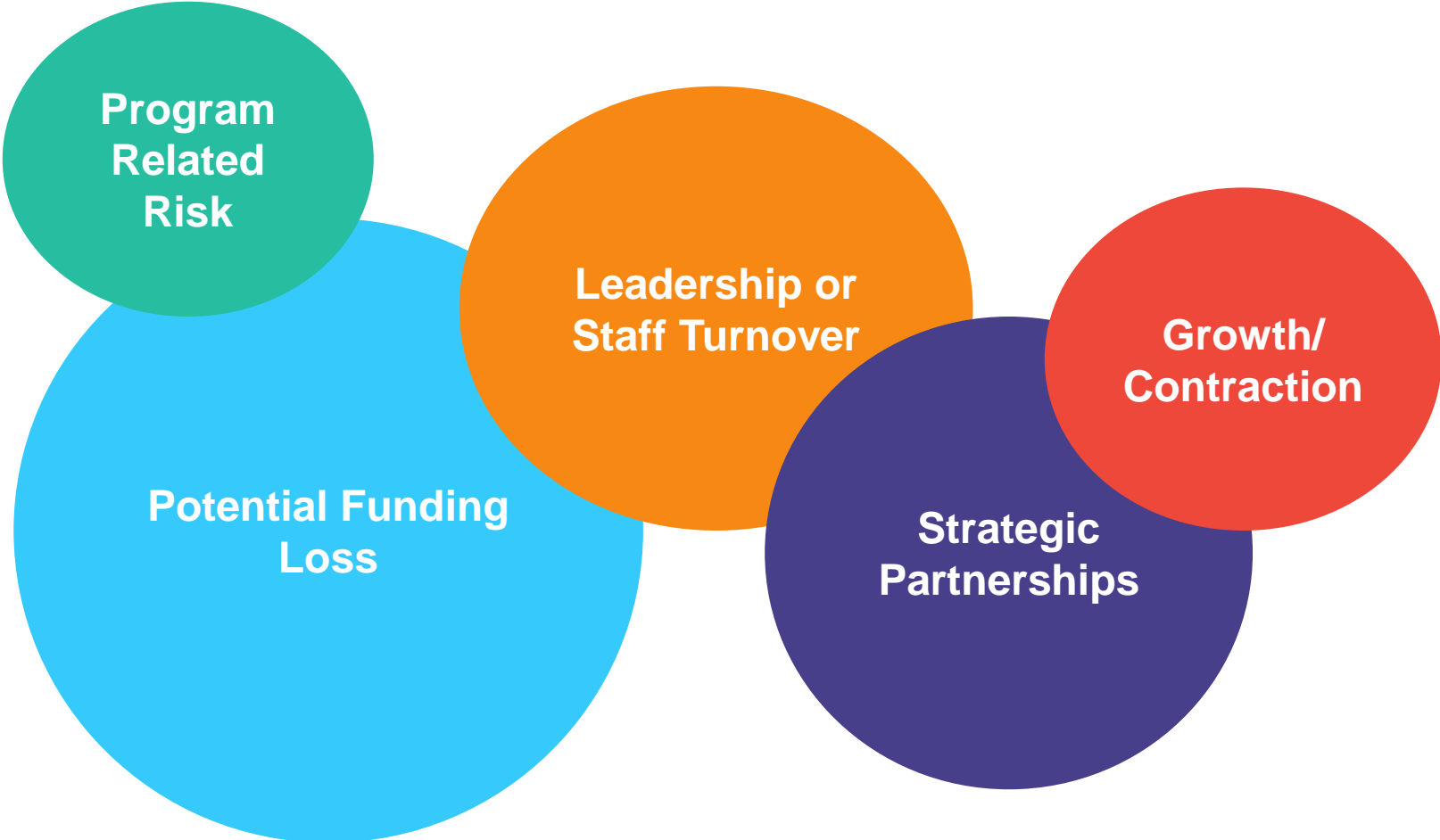
- Existing organizational structure and operations
- Easier to control

VS.

EXTERNAL

- Outside decision-making
- Market forces
- Disaster
- Harder to control

What Risks or Opportunities Do You Face?



manage
How do we ~~mitigate~~



Source: <https://thornleyfallis.ca/wp-content/uploads/2013/10/risk.jpg>

The Now and the Future

Sustainable

Having enough resources to accomplish our mission now and in the future.

- Can we make it through this year & the next?
- Are we meeting the needs we set out to meet?



Adaptable

Having enough resources to meet changing needs now and in the future.

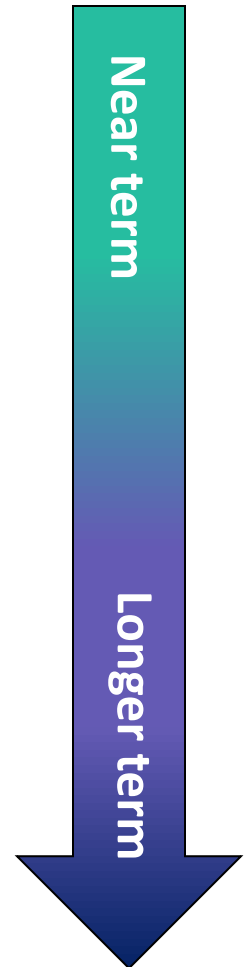
- Can we adjust to new conditions if and when we need to?
- Do we know what to say “No” to?
- Are our services still the right services for our community?



Building Long-Term Financial Health: Hierarchy of Need

Appropriate capitalization can support:

- **Liquidity**
Does the organization have adequate cash to meet its month-to-month operating needs?
- **Adaptability**
Does the organization have flexible funds that allow for mitigating risks, growth, or change?
- **Durability**
Does the organization have access to funds to address a variety of future needs to deliver mission over the long-term?



About Liquidity

- What does liquidity look like?
 - Cash easily available to management to pay bills on time, even during periods of negative cash flow
- How do I measure liquidity?
 - Months of cash
- How many months of cash do I need?
 - The answer is specific to your organization
 - Cash for liquidity should be determined based on cash flow projections

About Adaptability

- What does adaptability look like?
 - Reserves, for risk or opportunity
- How to measure adaptability
 - Months of Available Net Assets (ANA)
- How many months of ANA do I need?
 - The answer is specific to your organization
 - Resources for adaptability should be determined through a risks and opportunities assessment.

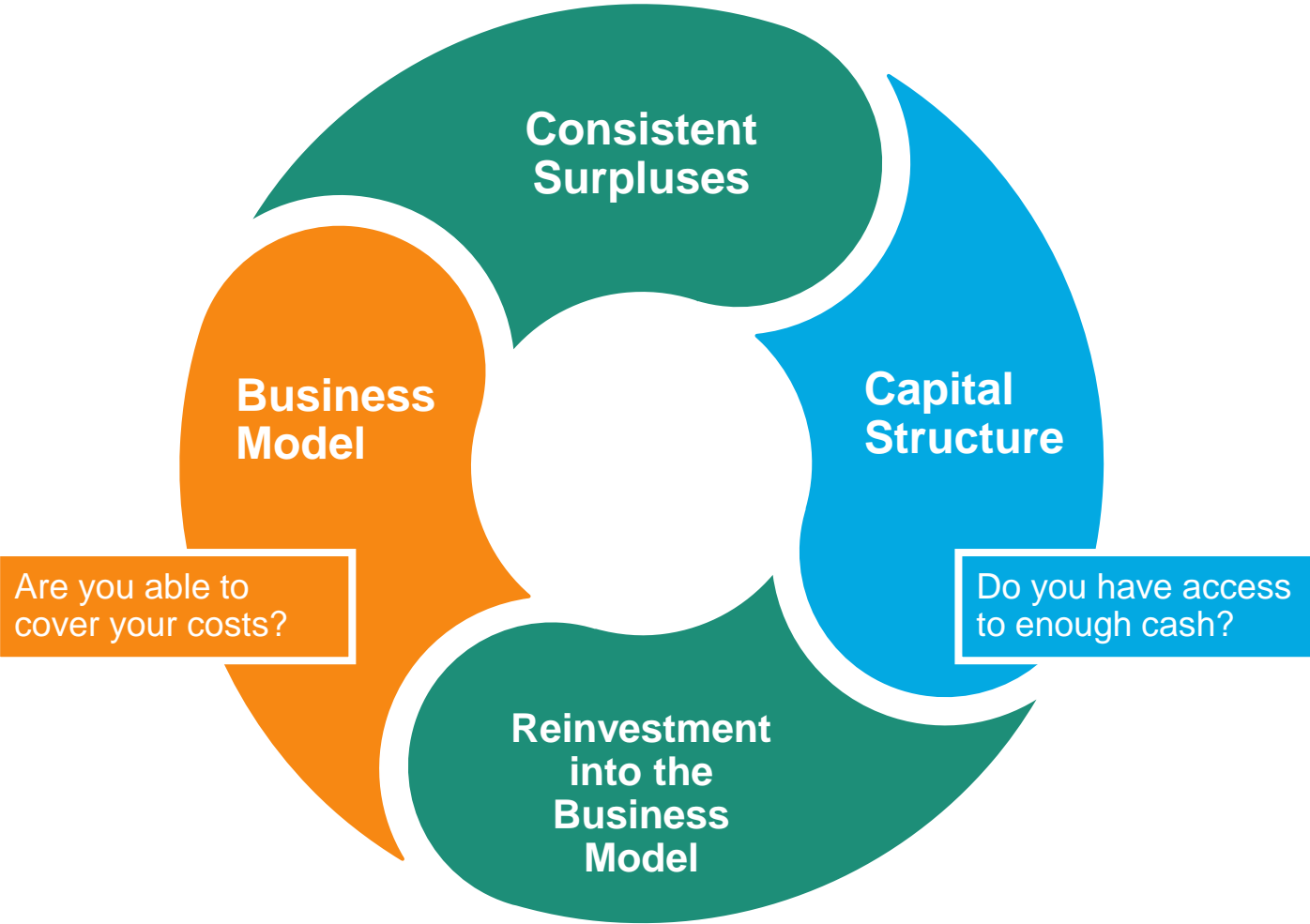
About Durability

- What does durability look like?
 - Fixed assets like facilities and equipment
 - Very long-term pledges
 - Endowments
- How much durability do I need?
 - The answer is specific to your organization
 - Depends on mission-delivery strategy
 - Many need very little durability

Setting Long Term Planning Goals Requires Knowing Where to Focus

	“Handles Risk”	“Making It Work”	“Vulnerable to Shocks”	“Need to Take Action Now”
1. Operating Surplus/ Deficit	<u>Consistent surpluses</u>	<u>Smaller surpluses</u>	<u>Variable operating results</u>	<u>Regular and/or sizable deficits</u>
2. Months of Cash	<u>6+ months</u>	<u>2-5 months</u>	<u>1-2 months</u>	<u><1 month</u>
3. Months of Available Net Assets	<u>6+ months</u>	<u>2-5 months</u>	<u>1-2 months</u>	<u><1 month</u>
Focus on	<i>Adaptability, Durability</i>	<i>Liquidity, Adaptability</i>	<i>Liquidity</i>	<i>Liquidity</i>

Consistent surpluses build liquidity, adaptability, and durability



Challenge: Communicating Use of Surplus

- Some (funders, board members) demand a “\$0 Bottom Line”
- **Explain why:** Budgeting to break-even will not cover an organization’s full costs and undermines ability to deliver on mission in the long-run
- **Show it in your reports:** Indicate plans for use of surplus “below the line” to demonstrate good management and satisfy the request for a “balanced budget”

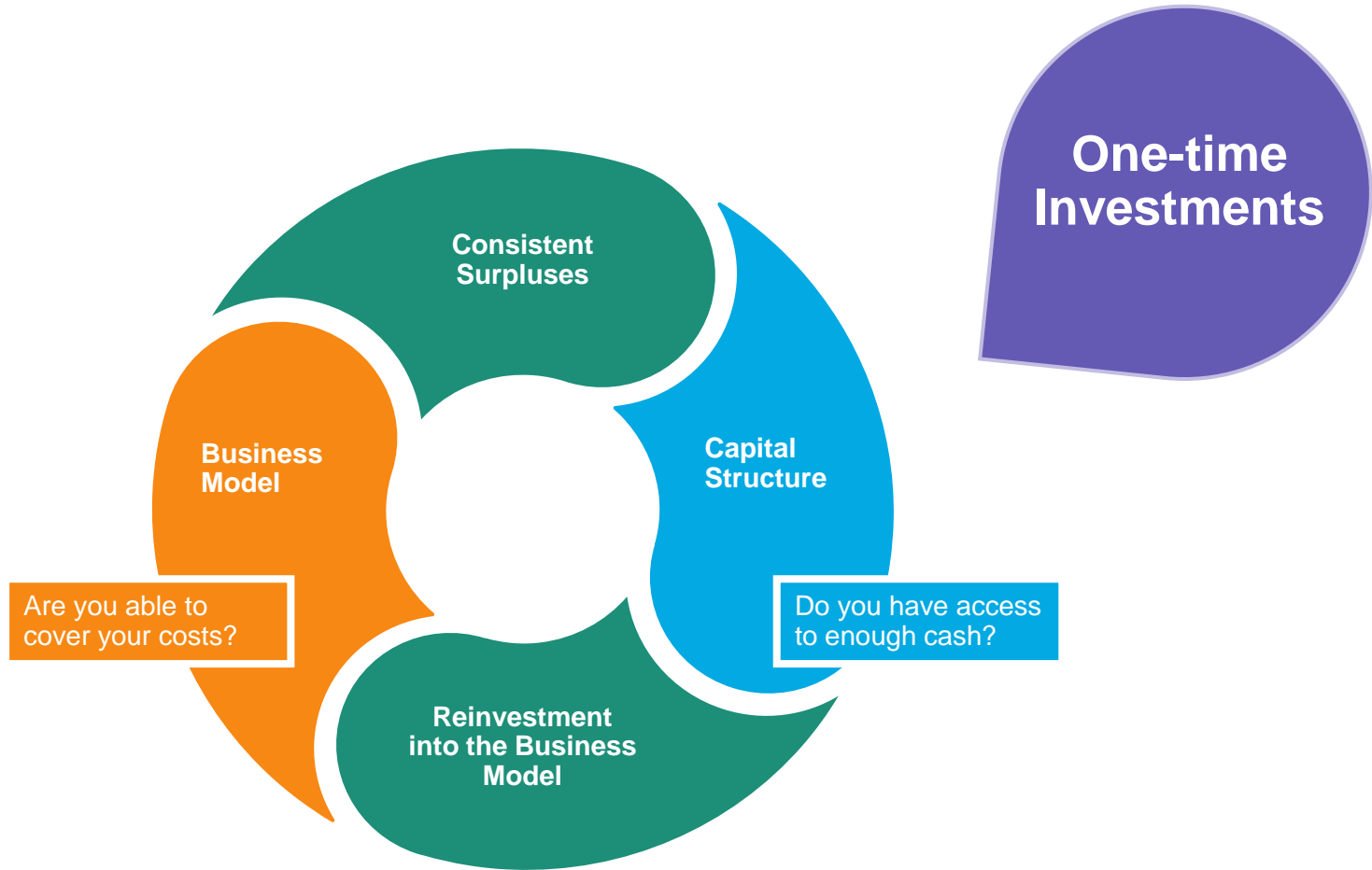
Below the Line Budgeting: What Might This Look Like?

Marine Center Budget (FYE 12/31, in 000s)	2020	
	Without Donor Restr.	With Donor Restr.
Revenue		
Program Fees	\$213	
Foundation grants	175	450
Individual contributions	230	
Released from restriction	150	(150)
Total Revenue	\$ 768	\$ 300
Expenses		
Personnel	\$ 504	
Professional fees	91	
Occupancy	74	
Depreciation	10	
Supplies and other	40	
Total Expenses	\$ 719	
Operating Surplus/Deficit	\$ 49	\$ 300
Priority Balance Sheet Needs		
Working Capital	\$ 150	
Fixed Asset Additions (<i>computers</i>)	30	
Shortfall After Priority Balance Sheet Needs	\$ (131)	

- Set goals internally
- Be specific
- How will this impact the organization's ability to meet mission?
- Adapt communications to the audience

**Below the line:
Communicate intentional use
of surplus**

Building Healthy Capital Structure: Supported by Surpluses *and* Periodic Investments



Building Long Term Financial Health

Local



Express



Main Takeaway: Budget to a Surplus

Financial health is a journey, not a destination

- Adopt the practice of budgeting to a surplus
- Make progress on your goals over time

Remember the hierarchy of need

- Liquidity comes first!
- Determine the metrics that are right for your organization

Help the sector do better

- Talk with other funders and nonprofits about the importance of surplus
- Open the conversation with your grantors/grantees

Learning Goals



Develop understanding of different types of organizational financial risks



Begin to build skills to manage risks with an aim towards long-term financial health



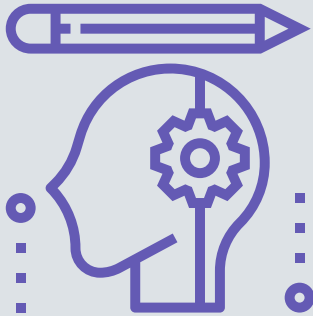
Understand ways to communicate your long-term needs to stakeholders

Check-Out

Please share via voice or chat your response to any of the following questions:

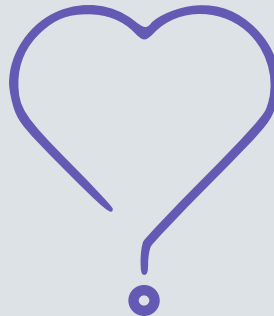
Head

What did you **learn** from today's session?



Heart

How did today's session make you **feel**?



Feet

What **actions** will you take to bring this back to your organization and community?



Up Next

Understanding Full Costs June 8, 2021, 1 – 2 pm EST

Full cost refers to the true cost of doing business for nonprofits, including total expenses, working capital, and reserves. In this webinar, NFF will walk you through the full cost of operating your organization and communicating that cost to funders. We'll define the components of full cost, provide language that names and claims nonprofits' full cost needs, offer guidance for prioritizing your organization's hidden costs, and share tips for discussing full cost with key stakeholders.

Outcomes: At the end of this session, participants will be able to understand the full cost of operating their organizations and how to communicate them.



Thank You!

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