
Webinar

Operating In a Changing World Part 1



Facilitated by

Kristine Alvarez, Director
Nonprofit Finance Fund

April 3, 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 →



NFF Team for Part 1 – Webinar Series



Learning Goals



Build shared awareness about the structurally inequitable system in which we operate



Begin to build skills to navigate the system amidst uncertainty



Preview core concepts in nonprofit finance & tools for building comprehensive financial health to support resiliency, and mission delivery

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

Aligning Money to Mission and Values



Celebrating Resilience within Arts & Culture Community



“We are proud to share the stories of how arts and culture organizations are adapting so that they continue to serve ... at a time when there is a greater need for human connection, dialogue, unity and fun...”

- Susan Mendenhall, President of Arts United, Indiana

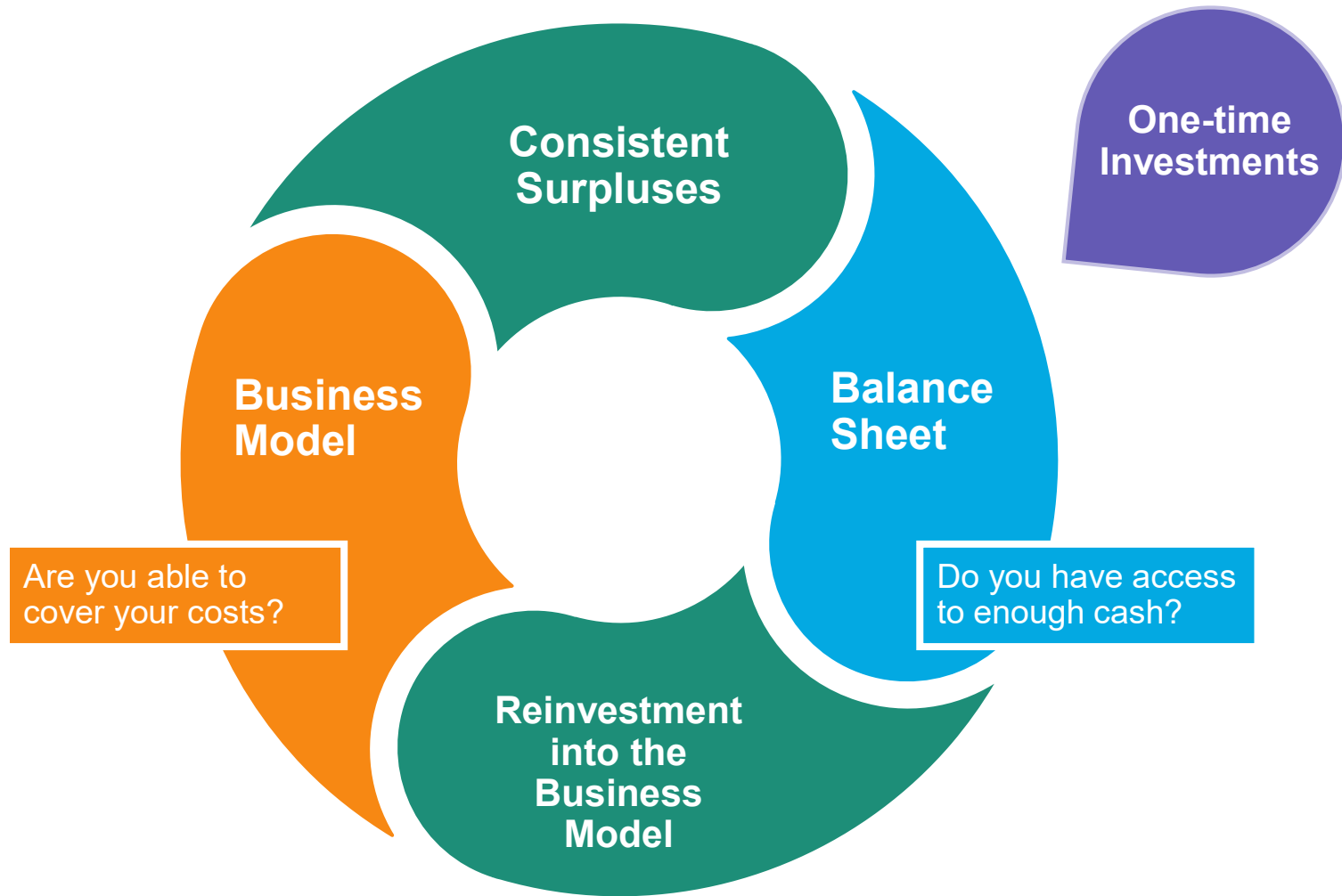


Identify & Leverage Your Complete Strengths and Assets

- **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



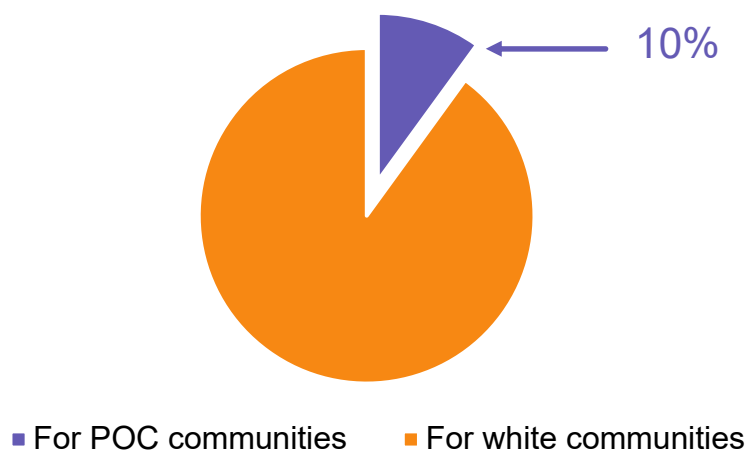
Surpluses and Access to Cash Underpin Financial Strength



The System: Who controls money flows, who benefits?

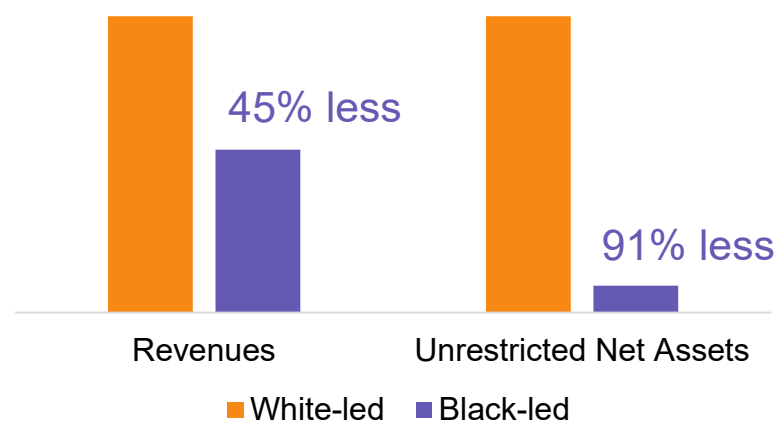
Racial Inequity in the Nonprofit Sector

\$24 billion U.S. Grants, 2016



<https://racialequity.org>

Serving Black Men and Boys



Organizations in Echoing Green's fellowship that focus on improving life outcomes for U.S. black men and boys

-Julia Travers, "[Amid Demands for Change, Here's How Philanthropy Can Back Underfunded Black-Led Groups](#)" – Inside Philanthropy (June 17, 2020)

The System: How Does Money Flow?

FOR-PROFIT

Single Payor

- Consumer buys the good & assesses its value
- Distinct relationship: consumer vs. investor

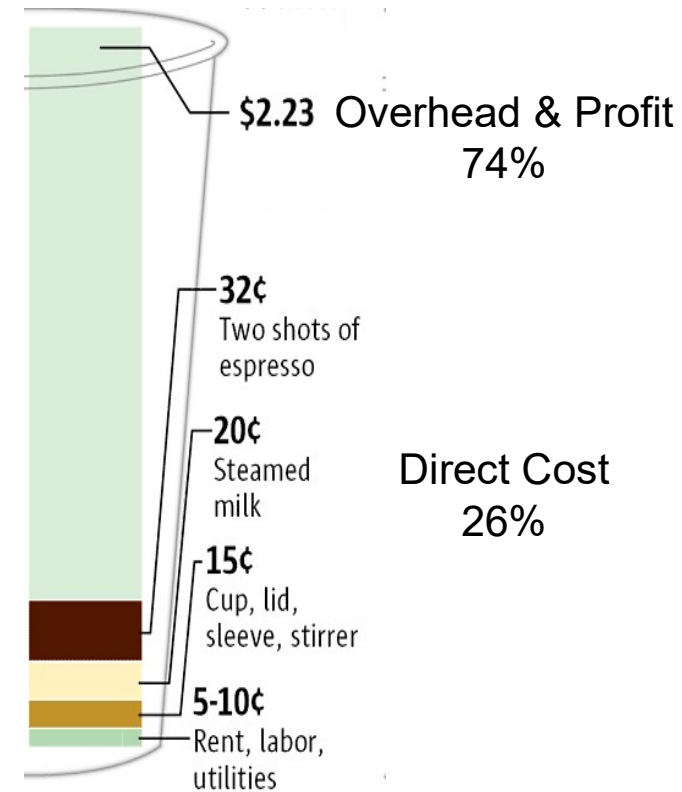
Single Goal: \$

- Overhead and profit are viewed as necessary
- Price covers cost of doing business plus a profit
- Money-generating business

Trust in Management

- Management decides how the money is spent

12-Ounce Coffee = \$3.00



A. RAYMOND/THE SEATTLE TIMES

Source: 2008, Matt Milletto, VP of the American Barista & Coffee School

The System: How Does Money Flow?

FOR-PROFIT SECTOR

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NONPROFIT SECTOR

Multi-Payor

- Client or “consumer” often does buy (*or does not fully buy*)
- Third party buys and assesses value

Dual Bottom Line: Impact & \$

- Profits are viewed (wrongly) as unnecessary
- Price does not cover the full cost of doing business
- Money-losing business: Meet social needs with low commercial returns

Distrust: Restricted Funding

- Donors often direct their contributions towards *direct services* (not *overhead*)
- Restrictions complicate finances

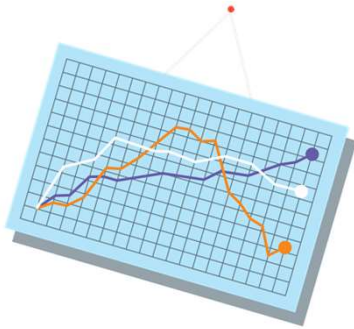
Reflection (2 min)

1. How do these dynamics show up for your organization? For the field?
2. How are you already navigating these challenges? What is working well, what's not?
3. What do you need?

The System Perpetuates Harmful Myths

Myth: Nonprofit = No Profits

- Truth: Surpluses are necessary!
- Tax Status vs. Business Model

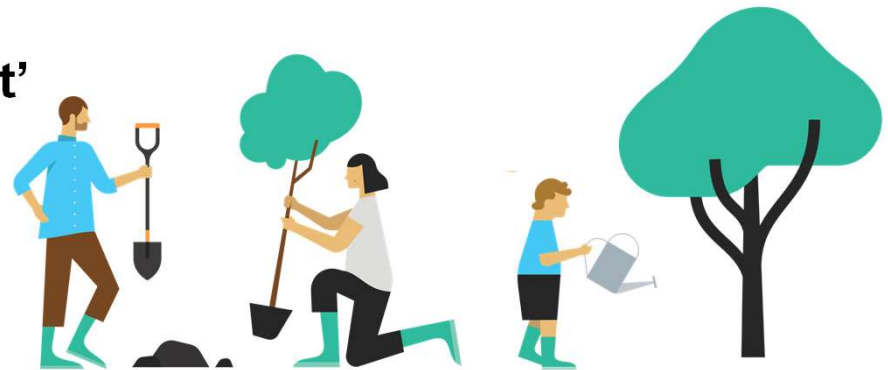


Myth: The 'Overhead Ratio' measures our value

- Truth: Outcomes measure value
- Overhead measures investment into our model

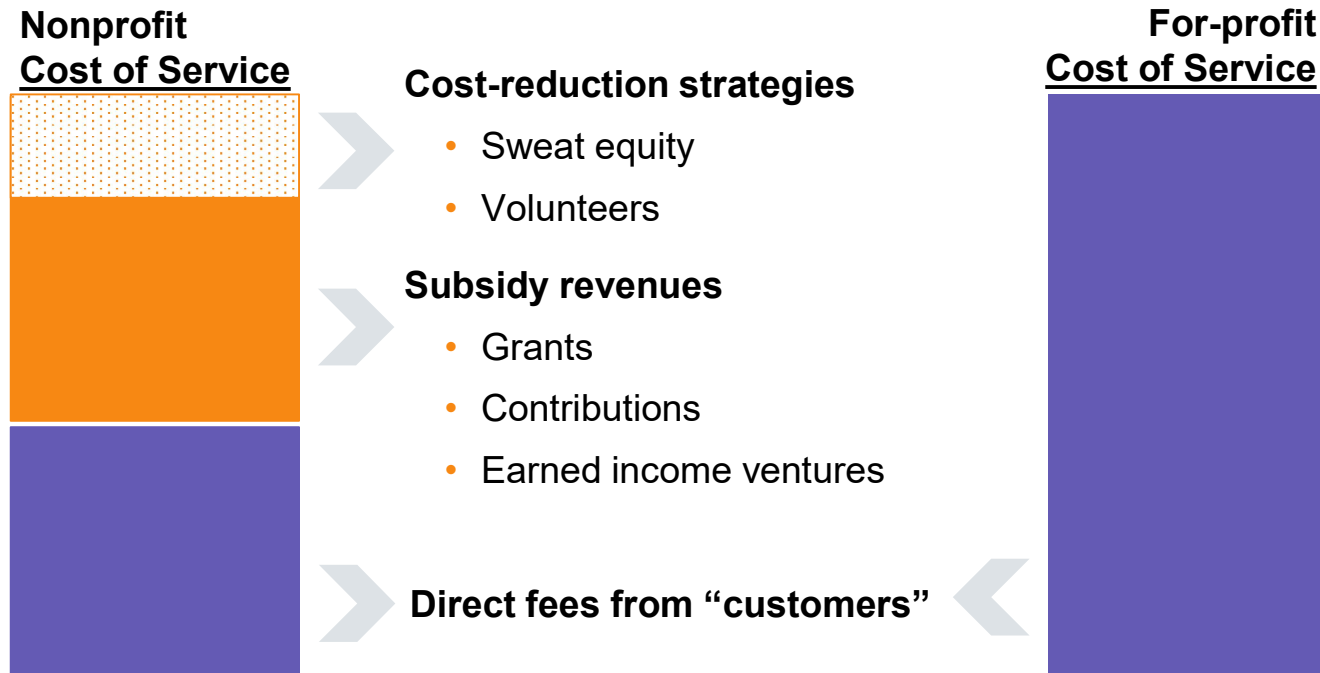
Myth: Nonprofits can be 'self-sufficient'

- Truth: We'll always need 3rd party payors



Debunking the Myth of Self-Sufficiency

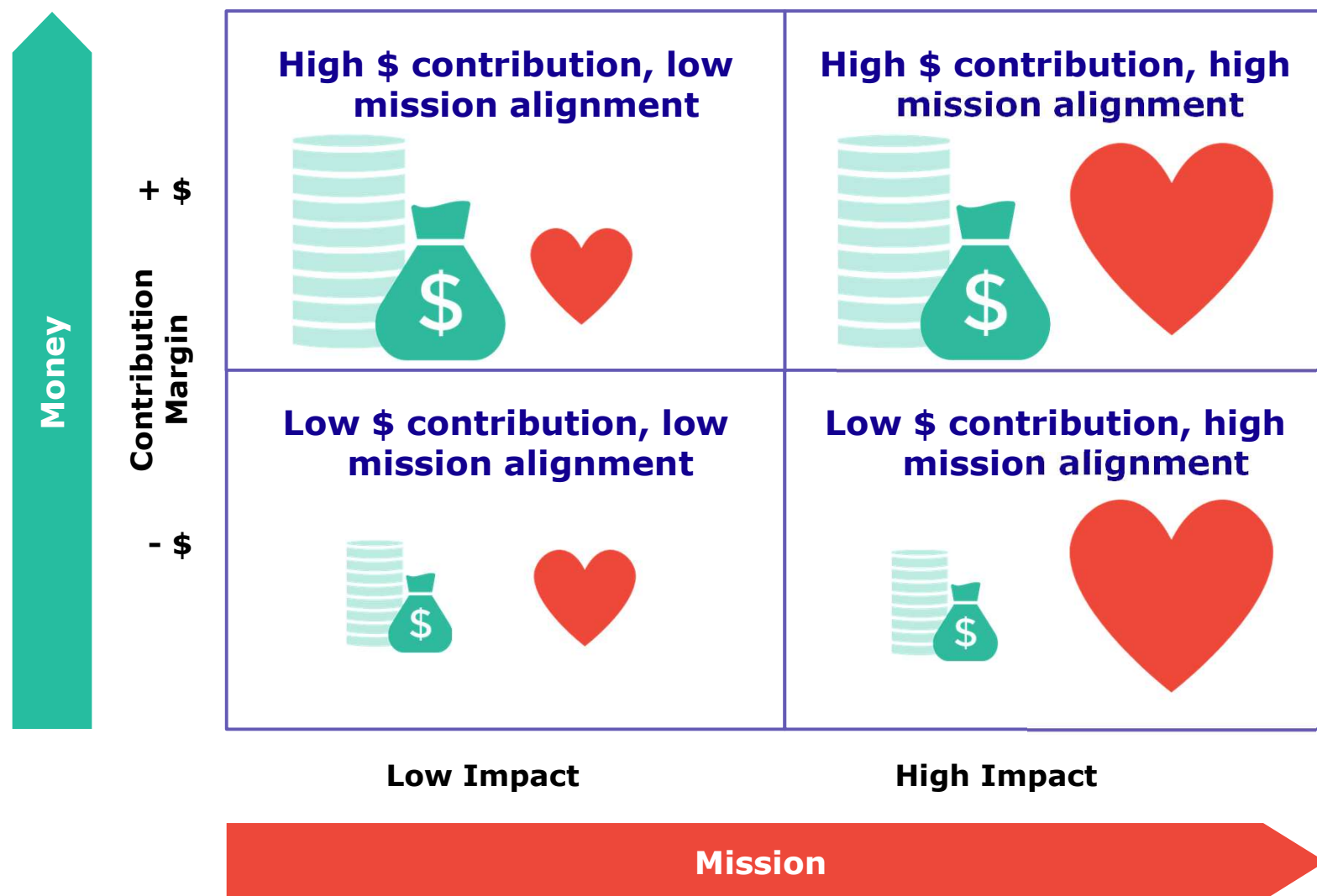
Nonprofits run two businesses: Mission & Subsidy



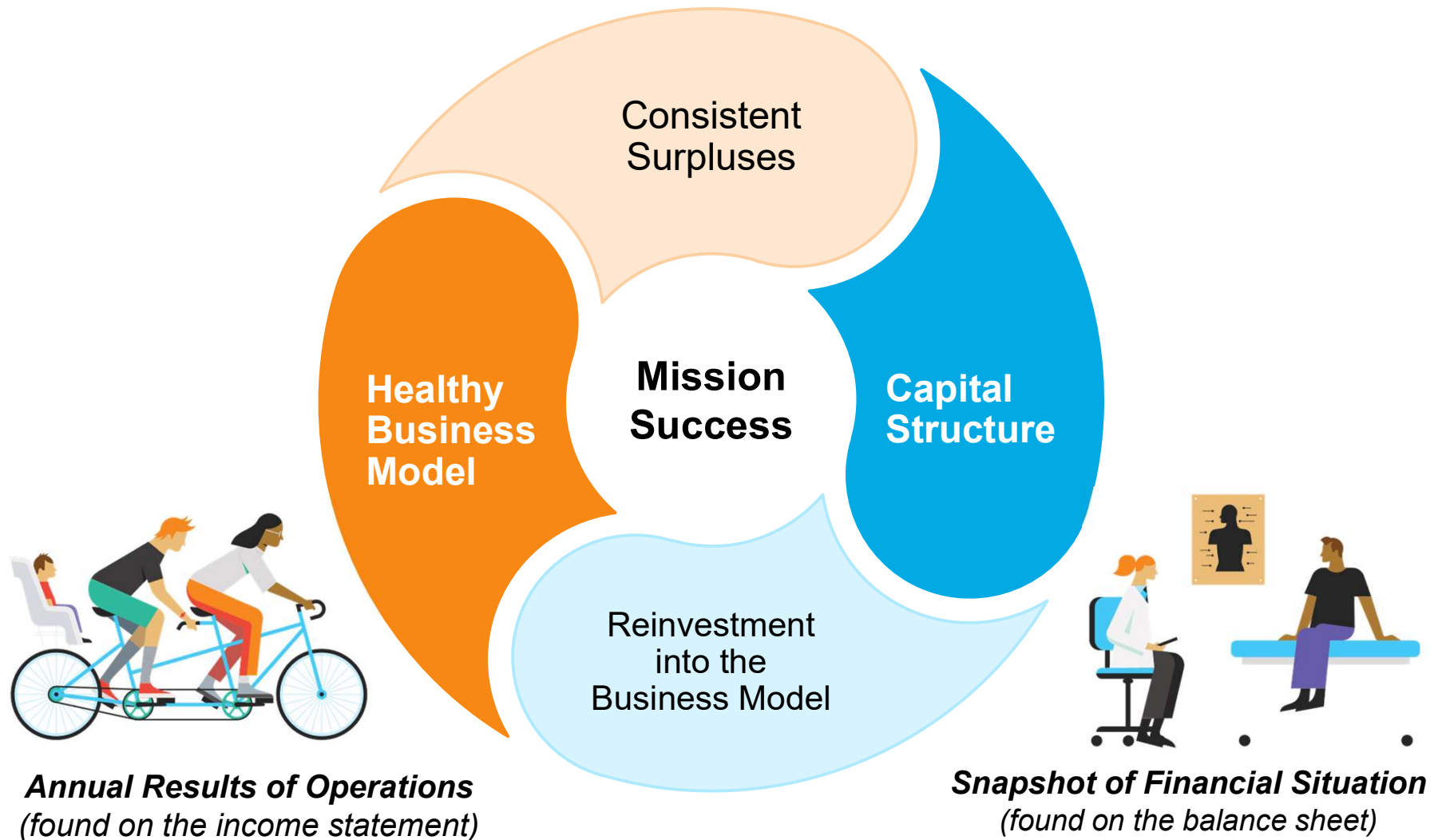
- Subsidy businesses take their own set of capacities to run
- When program growth or change occurs, subsidies must grow in proportion
- Cost reduction strategies can have serious consequences for the mission

Balancing Mission and Money

Nonprofits Manage Portfolio of Activities:



Building Comprehensive Financial Strength



Navigating a Changing World

1. Understand your financial situation

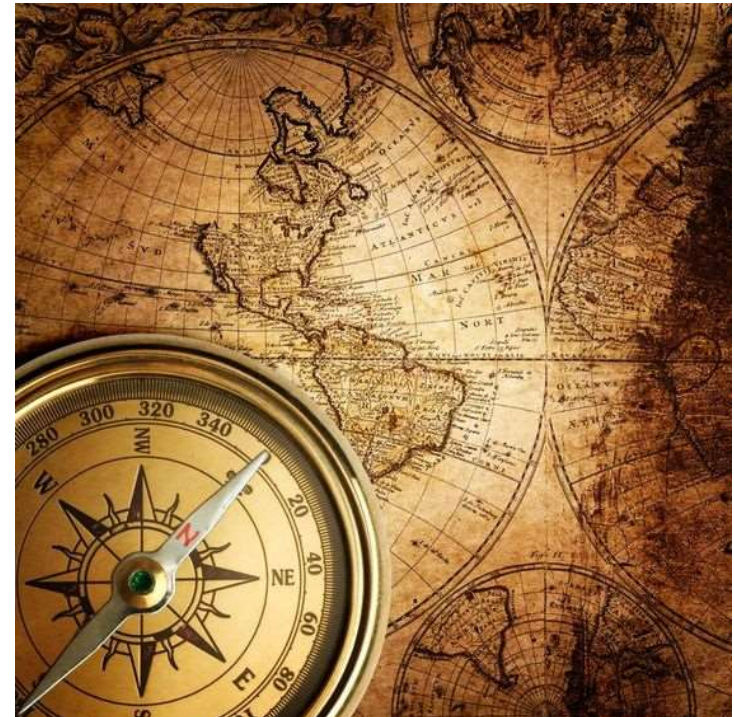
- Know your financial position and cash flow
- Determine your priorities

2. Build budget flexibility and alternates

- Identify risks and opportunities
- Bolster budget visibility to enable nimble decision-making
- Add scenarios to navigate the uncertain

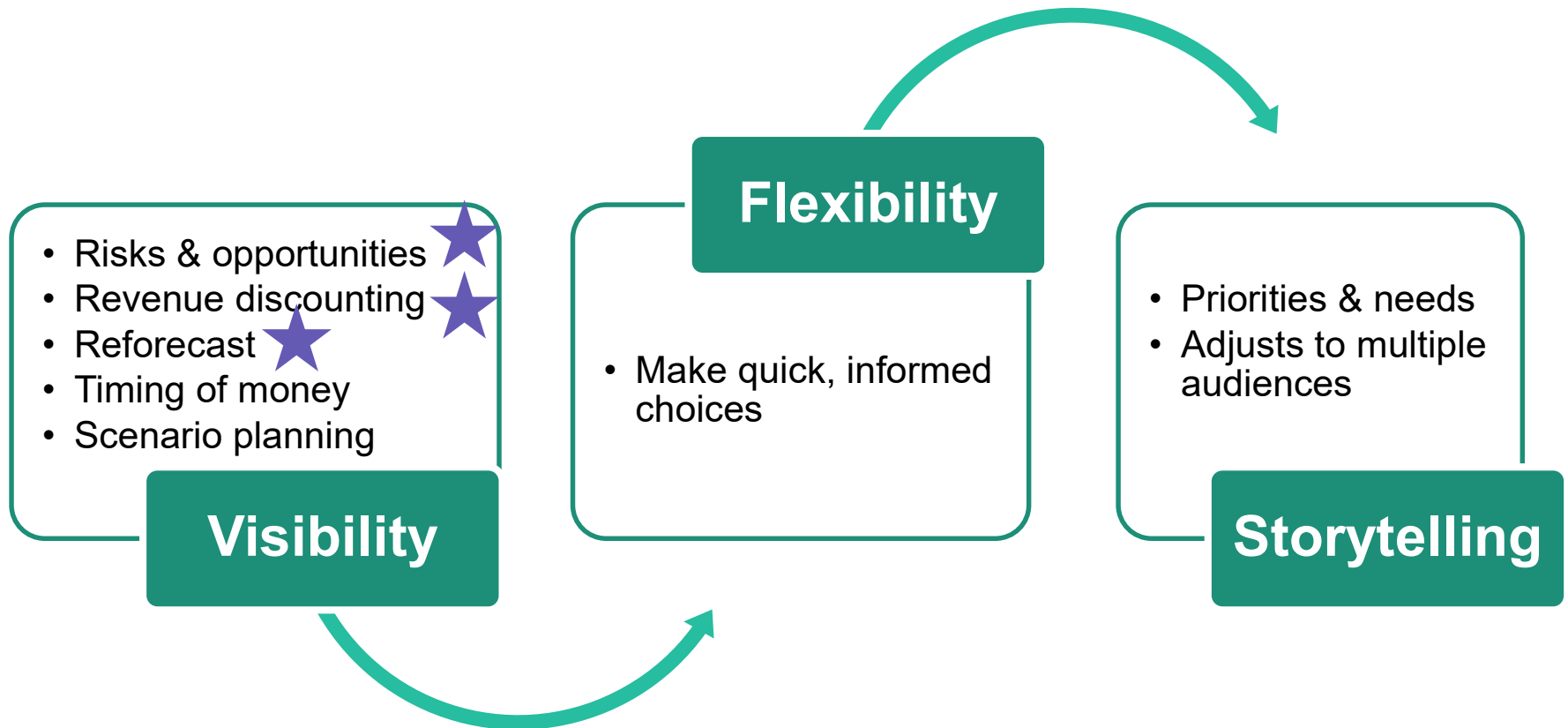
3. Communicate your financial story

- What do your staff, board, funders, and community need to know to best support the organization?



Budgeting Strategies for Managing in Uncertainty

Increase visibility to maximize flexibility



Identifying Risk and Opportunity in Budgets

BUDGET
REVENUE
Earned
Contributed
<i>Private Sources</i>
<i>Government</i>
EXPENSES
Personnel
Professional fees
Occupancy
Program Costs
Admin Costs
Other
Surplus/Deficit

1. Articulate your assumptions
2. Identify your key risks or potential swings
3. Identify what you do & don't have control over (where to be proactive and/or reactive)

Worksheet: Identifying Risk and Opportunity in Budgets

BUDGET
REVENUE
Earned
Contributed
<i>Private Sources</i>
<i>Government</i>
EXPENSES
Personnel
Professional fees
Occupancy
Program Costs
Admin Costs
Other
Surplus/Deficit

Revenue Dynamics:

- What might shift in gov't support and contracts? In individual donations?
- How might private funding shift away from some mission areas toward others?
- How are shifting markets affecting our earned revenue?
- What is already secured/guaranteed or not?

Expense Dynamics:

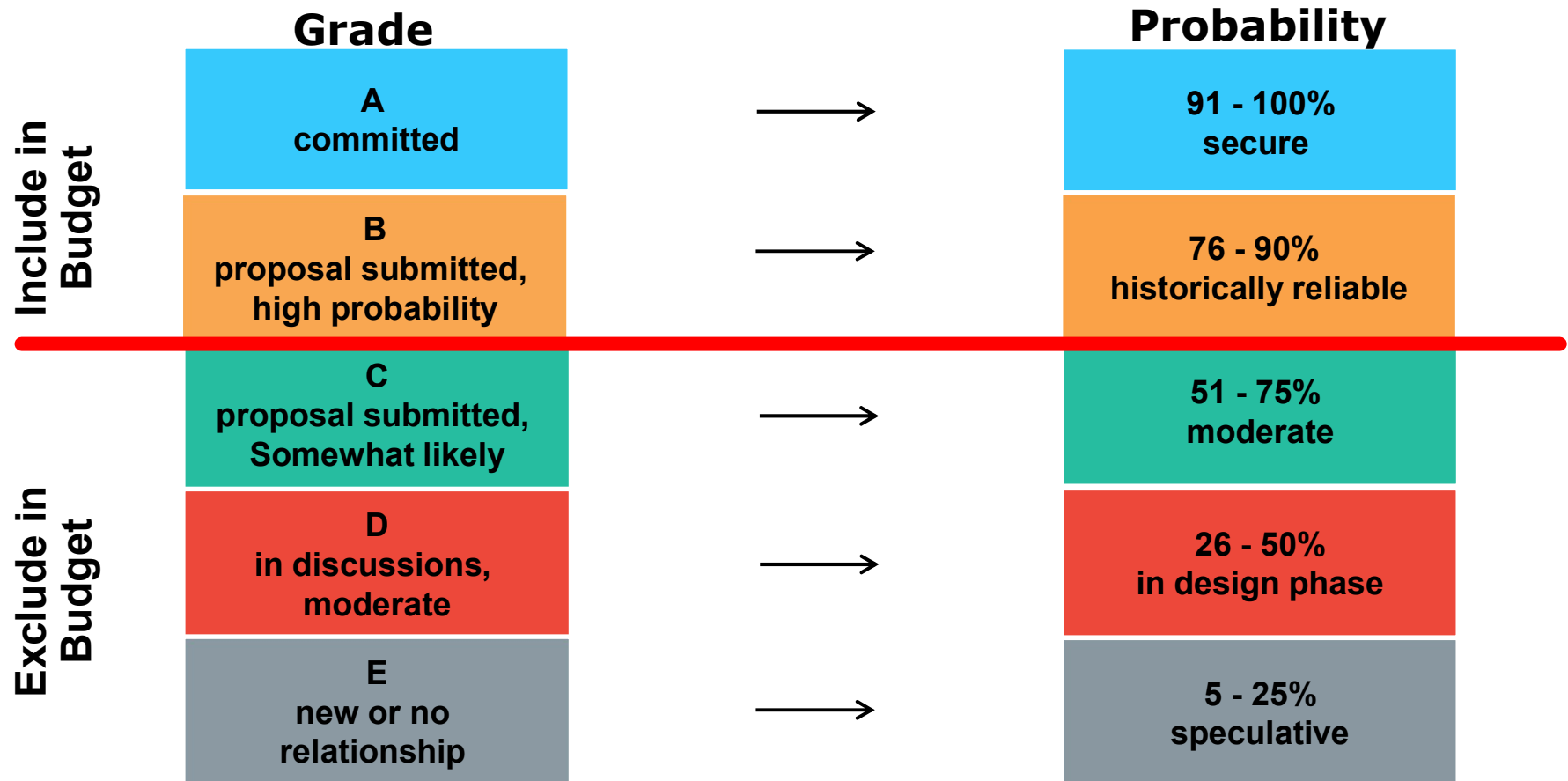
- Increased demand? Decreased demand?
- New partnerships or funding opportunities that require staff time and financial resources?
- Staff or expenses contingent on securing funding that's now uncertain?
- Changes to rent? Can we renegotiate?

Profitability & Savings:

- How well can we tolerate a deficit due to what's at risk or the cost of opportunity?
- Any opportunities to generate savings?

Discount Revenue Based on Risk

Budgeting for unpredictable revenue



Example of Revenue Discounting

	Budget Without Restrictions	
ABC Community Foundation	85,000	
Sunshine Foundation	-	
Fairhills Foundation	15,000	
XYZ Foundation	20,000	
Fair Weather Foundation	185,000	
Stage Coach Bank Foundation	15,000	
123 Foundation	65,000	
NF Foundation	-	
To be raised	30,000	
Net assets released from restriction	120,000	
Total foundations	535,000	

Budget Reforecasting to Manage Risk and Change

	FY 21 BUDGET	FY 21 Q3 YTD ACTUALS	FY 21 RE- FORECASTED BUDGET
Revenue			
<i>Earned Income</i>			
Admissions	20,000	5,000	10,000
Tuition and workshop fees	30,000	25,000	35,000
<i>Contributed Income</i>			
Foundations	175,000	100,000	125,000
Total Revenue	225,000	130,000	170,000
Expenses			
Personnel	100,000	70,000	105,000
Consultant fees	30,000	-	30,000
Travel	7,000	4,000	4,000
Occupancy	40,000	30,000	40,000
Total Expenses	177,000	104,000	179,000
Surplus (Deficit)	48,000	26,000	(9,000)

A Sample Budget Template is Available at:

<https://nff.org/sites/default/files/paragraphs/file/download/NFF%20Basic%20Budgeting%20Tool.xls>

Organization name FY 2018									Last updated:
Fiscal year end: Dec 31	Actual	Forecast or Actual	Rerecast	Budget Without Restrictions	Budget With Restrictions	Budget Total	Variance Total	Variance Without Restrictions	
	FY 2016	FY 2017	FY2018	FY 2018	FY 2018	FY 2018			Notes
Revenue									
Total earned revenue	-	-	-	-	-	-	-	-	
Total contributed revenue	-	-	-	-	-	-	-	-	
Total Revenue	-	-	-	-	-	-	-	-	
Expenses									
Subtotal salaries	-	-	-	-	-	-	-	-	
Subtotal benefits	-	-	-	-	-	-	-	-	
Total personnel	-	-	-	-	-	-	-	-	
Total consultants/contractors	-	-	-	-	-	-	-	-	
Total occupancy	-	-	-	-	-	-	-	-	
Total support	-	-	-	-	-	-	-	-	
Total Expenses	-	-	-	-	-	-	-	-	
Operating Surplus / Deficit	-	-	-	-	-	-	-	-	
**This is just an example, and the revenue and expense categories are not meant to be exhaustive.									

Additional Pre-Recorded Resources:

<https://nff.org/webinar-budgeting-basics>

<https://nff.org/webinar-strategic-budgeting>

Planning Considerations for Future

Questions to consider to support flexible budgeting:

- What will service delivery look like? What kind of service volume are we expecting given the limitations imposed by COVID-19?
- Are there costs associated with programs that have been paused versus reduced/adjusted?
- What kind of upfront costs will we need to consider (versus our ongoing costs of operating the re-opened programs)?
- What factors might result in re-closing?

Review: Learning Goals



Build shared awareness about the structurally inequitable system in which we operate



Begin to build skills to navigate the system amidst uncertainty



Preview core concepts in nonprofit finance & tools for building comprehensive financial health to support resiliency, and mission delivery

Up Next

Operating in a Changing World (Part 2)

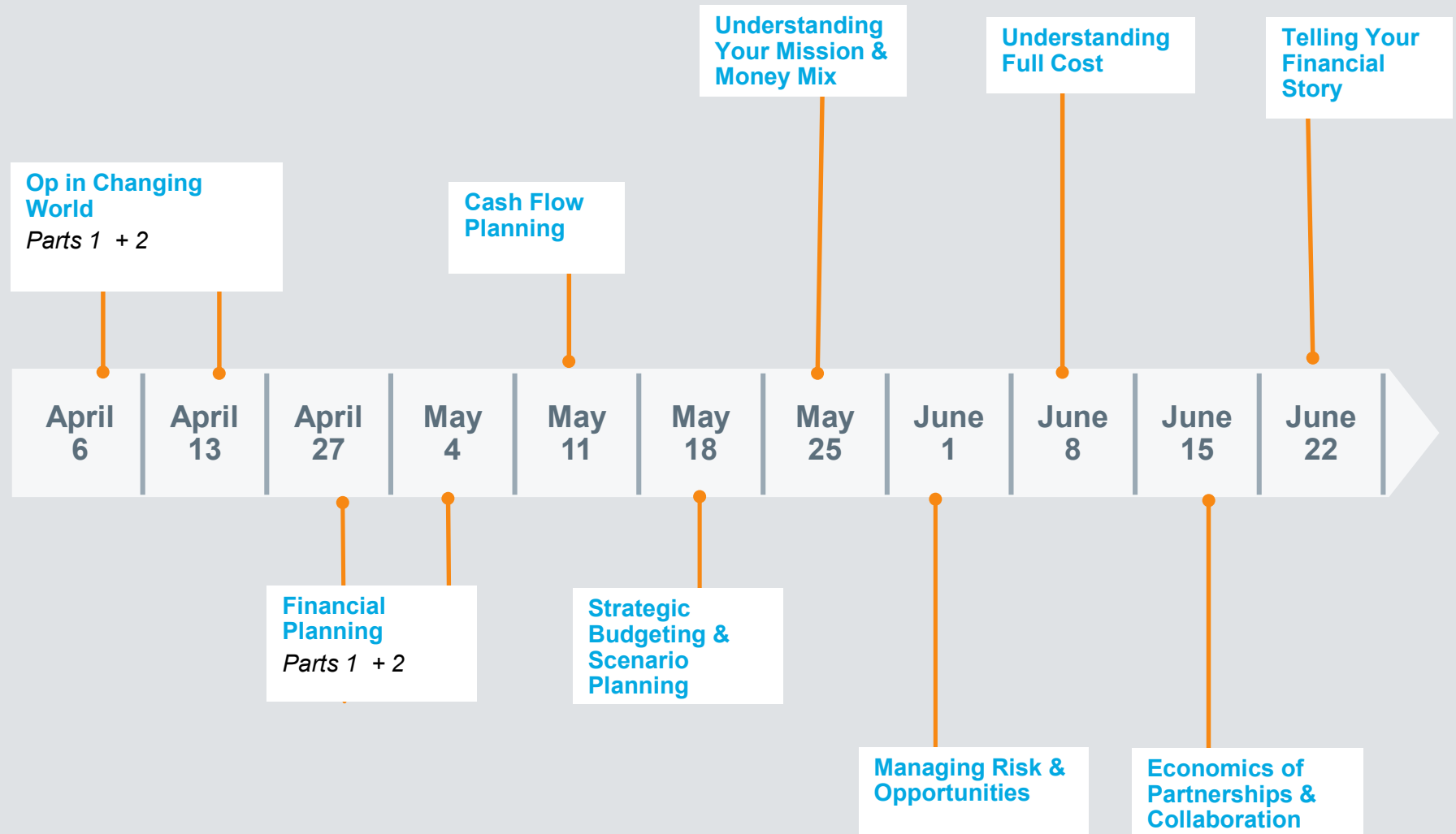
April 13, 2021, 1 – 2 pm EST

Building on Part 1, this session will help nonprofit leaders take stock of where their organization stands in the face of compounding health and economic crises. After presenting a framework for understanding a nonprofit's strengths, NFF will provide tools for assessing your organization's position, setting priorities, communicating needs, and planning amidst uncertainty.

Outcomes: At the end of this session, participants will be able to take stock of where they are amidst compounding health and economic crises and how to navigate uncertainty.



Upcoming Sessions



Thank You!

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@nff_news

@NFFSocialImpact

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