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

“Land acknowledgments are a stepping stone to honouring broken treaty relationships.”

• 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 →

Leading By Doing

Rigor Without Attitude

Equity in Action

Responsiveness

Generosity of Spirit
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

VISION:
Aspirations and goals for tomorrow

MISSION:
Core purpose and goals for today

VALUES:
Core beliefs to guide decisions

FINANCIAL DECISION-MAKING
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

- Consistent Surpluses
- Business Model
  - Are you able to cover your costs?
- Reinvestment into the Business Model
- Balance Sheet
  - Do you have access to enough cash?
- One-time Investments
The System: Who controls money flows, who benefits?
Racial Inequity in the Nonprofit Sector

$24 billion U.S. Grants, 2016

- For POC communities
- For white communities

10%

Serving Black Men and Boys

- Revenues
  - White-led: 45% less
  - Black-led: 91% less

- Unrestricted Net Assets
  - White-led
  - Black-led

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


https://racialequity.org
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

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**12-Ounce Coffee = $3.00**

- Direct Cost: 26%
- Overhead & Profit: 74%

- **$2.23** Overhead & Profit
  - 32¢ Two shots of espresso
  - 20¢ Steamed milk
  - 15¢ Cup, lid, sleeve, stirrer
  - 5-10¢ Rent, labor, utilities

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

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Trust in Management

Management decides how the money is spent
## The System: How Does Money Flow?

<table>
<thead>
<tr>
<th>FOR-PROFIT SECTOR</th>
<th>NONPROFIT SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Single Payor</strong></td>
<td></td>
</tr>
<tr>
<td>Consumer buys the good &amp; assesses its value</td>
<td></td>
</tr>
<tr>
<td>Distinct relationship: consumer vs. investor</td>
<td></td>
</tr>
<tr>
<td><strong>Single Goal: $</strong></td>
<td></td>
</tr>
<tr>
<td>Overhead and profit are viewed as necessary</td>
<td>Profits are viewed (wrongly) as unnecessary</td>
</tr>
<tr>
<td>Price covers cost of doing business plus a profit</td>
<td>Price does not cover the full cost of doing business</td>
</tr>
<tr>
<td>Money-generating business</td>
<td>Money-losing business: Meet social needs with low commercial returns</td>
</tr>
<tr>
<td><strong>Trust in Management</strong></td>
<td></td>
</tr>
<tr>
<td>Management decides how the money is spent</td>
<td></td>
</tr>
<tr>
<td><strong>Multi-Payor</strong></td>
<td></td>
</tr>
<tr>
<td>Client or “consumer” often does buy (or does not fully buy)</td>
<td></td>
</tr>
<tr>
<td>Third party buys and assesses value</td>
<td></td>
</tr>
<tr>
<td><strong>Dual Bottom Line: Impact &amp; $</strong></td>
<td></td>
</tr>
<tr>
<td>Donors often direct their contributions towards direct services (not overhead)</td>
<td></td>
</tr>
<tr>
<td>Restrictions complicate finances</td>
<td></td>
</tr>
</tbody>
</table>
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

Cost-reduction strategies
- Sweat equity
- Volunteers

Subsidy revenues
- Grants
- Contributions
- Earned income ventures

Direct fees from “customers”
Balancing Mission and Money
Nonprofits Manage Portfolio of Activities:

Money

Contribution Margin

+ $  

High $ contribution, low mission alignment

High $ contribution, high mission alignment

Low $ contribution, low mission alignment

Low $ contribution, high mission alignment

Low Impact  

High Impact  

Mission
Building Comprehensive **Financial** Strength

- **Healthy Business Model**
  - **Annual Results of Operations**
    - *(found on the income statement)*

- **Capital Structure**
  - **Snapshot of Financial Situation**
    - *(found on the balance sheet)*

- **Mission Success**
  - **Consistent Surpluses**
  - **Reinvestment into the Business Model**
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

Visibility

• Risks & opportunities
• Revenue discounting
• Reforecast
• Timing of money
• Scenario planning

Flexibility

• Make quick, informed choices

Storytelling

• Priorities & needs
• Adjusts to multiple audiences
## Identifying Risk and Opportunity in Budgets

### BUDGET

<table>
<thead>
<tr>
<th><strong>REVENUE</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned</td>
<td></td>
</tr>
<tr>
<td>Contributed</td>
<td></td>
</tr>
<tr>
<td><em>Private Sources</em></td>
<td></td>
</tr>
<tr>
<td><em>Government</em></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>EXPENSES</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td></td>
</tr>
<tr>
<td>Professional fees</td>
<td></td>
</tr>
<tr>
<td>Occupancy</td>
<td></td>
</tr>
<tr>
<td>Program Costs</td>
<td></td>
</tr>
<tr>
<td>Admin Costs</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

| **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

<table>
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<th>EXPENSES</th>
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<tbody>
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<td></td>
<td>Admin Costs</td>
</tr>
<tr>
<td></td>
<td>Other</td>
</tr>
</tbody>
</table>

### 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

<table>
<thead>
<tr>
<th>Grade</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>A (committed)</td>
<td>91 - 100% secure</td>
</tr>
<tr>
<td>B (proposal submitted, high probability)</td>
<td>76 - 90% historically reliable</td>
</tr>
<tr>
<td>C (proposal submitted, Somewhat likely)</td>
<td>51 - 75% moderate</td>
</tr>
<tr>
<td>D (in discussions, moderate)</td>
<td>26 - 50% in design phase</td>
</tr>
<tr>
<td>E (new or no relationship)</td>
<td>5 - 25% speculative</td>
</tr>
</tbody>
</table>

- **Include in Budget**
- **Exclude in Budget**
## Example of Revenue Discounting

<table>
<thead>
<tr>
<th>Foundation</th>
<th>Budget Without Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC Community Foundation</td>
<td>85,000</td>
</tr>
<tr>
<td>Sunshine Foundation</td>
<td>-</td>
</tr>
<tr>
<td>Fairhills Foundation</td>
<td>15,000</td>
</tr>
<tr>
<td>XYZ Foundation</td>
<td>20,000</td>
</tr>
<tr>
<td>Fair Weather Foundation</td>
<td>185,000</td>
</tr>
<tr>
<td>Stage Coach Bank Foundation</td>
<td>15,000</td>
</tr>
<tr>
<td>123 Foundation</td>
<td>65,000</td>
</tr>
<tr>
<td>NF Foundation</td>
<td>-</td>
</tr>
<tr>
<td>To be raised</td>
<td>30,000</td>
</tr>
<tr>
<td>Net assets released from restriction</td>
<td>120,000</td>
</tr>
<tr>
<td><strong>Total foundations</strong></td>
<td><strong>535,000</strong></td>
</tr>
</tbody>
</table>
# Budget Reforecasting to Manage Risk and Change

<table>
<thead>
<tr>
<th></th>
<th>FY 21 BUDGET</th>
<th>FY 21 Q3 YTD ACTUALS</th>
<th>FY 21 RE-FORECASTED BUDGET</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Earned Income</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admissions</td>
<td>20,000</td>
<td>5,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Tuition and workshop fees</td>
<td>30,000</td>
<td>25,000</td>
<td>35,000</td>
</tr>
<tr>
<td><em>Contributed Income</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundations</td>
<td>175,000</td>
<td>100,000</td>
<td>125,000</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>225,000</td>
<td>130,000</td>
<td>170,000</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>100,000</td>
<td>70,000</td>
<td>105,000</td>
</tr>
<tr>
<td>Consultant fees</td>
<td>30,000</td>
<td>-</td>
<td>30,000</td>
</tr>
<tr>
<td>Travel</td>
<td>7,000</td>
<td>4,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Occupancy</td>
<td>40,000</td>
<td>30,000</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>177,000</td>
<td>104,000</td>
<td>179,000</td>
</tr>
<tr>
<td><strong>Surplus (Deficit)</strong></td>
<td>48,000</td>
<td>26,000</td>
<td><em>(9,000)</em></td>
</tr>
</tbody>
</table>
A Sample Budget Template is Available at:

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

Additional Pre-Recorded Resources:

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

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

- **Op in Changing World**
  - Parts 1 + 2
- **Financial Planning**
  - Parts 1 + 2
- **Cash Flow Planning**
- **Understanding Your Mission & Money Mix**
- **Understanding Full Cost**
- **Managing Risk & Opportunities**
- **Economics of Partnerships & Collaboration**
- **Strategic Budgeting & Scenario Planning**

Dates:
- **April 6**
- **April 13**
- **April 27**
- **May 4**
- **May 11**
- **May 18**
- **May 25**
- **June 1**
- **June 8**
- **June 15**
- **June 22**
Thank You!

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