Webinar

Operating In a Changing World
Part 1

Facilitated by
Kristine Alvarez, Director
Nonprofit Finance Fund

April 15, 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

We are on a mission to support community-centered organizations led by and serving people of color, helping them access the investment capital and financial knowledge they need to realize their aspirations.
The Rising Together Initiative
NFF is partnering with…

Goal: Position community organizations to sustain and adapt your impact

- Better understand financial dynamics of the current operations as well as growth and change
- Identify, prioritize, and quantify financial needs
- Build capacity for strengthened financial management, resilience and data informed decision making

*The Rising Together Initiative is funded by Morgan Stanley*
NFF Team for Part 1 – Webinar Series (Sessions 1 – 6)
Learning Goals

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

**Identify strengths & 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 the Sector

“The coronavirus pandemic has highlighted the importance and the agility of small community-based organizations, especially in a crisis… often these groups don’t get much attention. They are overshadowed and out-funded by big better-known nonprofits … [and] have stepped up in creative ways in dire circumstances…

“These organizations have the most intimate on-the-ground pulse of what neighborhoods and families really need … They will be critical to recovery and rebuilding.”

Source: Wall Street Journal (June 24, 2020)
Assessing Your Strengths

- **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
Financial Strength

- Consistent Surpluses
- Reinvestment into the Business Model
- Capital Structure
- Business Model

One-time Investments

Are you able to cover your costs?
Do you have access to enough cash?
Business Model and Capital Structure Are Connected

Business Model

Annual results of operations

Revenue
- Expense

Surplus/Deficit

A surplus builds net assets
A deficit depletes net assets

Capital Structure

Snapshot of overall financial health

Assets
- Liabilities

Net Assets
# Unpacking the Business Model

## Income Statement

### Revenue
- Earned
- Contributed
  - Private Sources
  - Government

### Expenses
- Personnel
- Professional Fees
- Occupancy
- Support
- Other

### Surplus / Deficit

### Revenue Dynamics
- How does your organization’s generate or make money?
- What feels reliable or at risk? How does seasonality play a factor?

### Expense Dynamics
- How did the organization spend its money?
- What is predictable?
- How responsive can we be to changes? How prepared are we to make hard decisions?

### Profitability & Savings
- How were costs covered?
- What surplus was available?
The System: Who controls money flows, who benefits?
Racial Inequity in the Nonprofit Sector

$24 billion U.S. Grants, 2016

For POC communities: 10%
For white communities: 90%

Serving Black Men and Boys

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

Unrestricted Net Assets
- White-led
- Black-led: 91% less

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

The System: How Does Money Flow?

FOR-PROFIT

Single Payor
- Consumer buys the good & assesses its value

Single Bottom Line, 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
The System: How Does Money Flow?

**FOR-PROFIT**

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- Consumer buys the good & assesses its value

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**12-Ounce Coffee = $3.00**

- $2.23 Overhead & Profit (74%)
- 32¢ Two shots of espresso
- 20¢ Steamed milk
- 15¢ Cup, lid, sleeve, stirrer
- 5-10¢ Rent, labor, utilities

**Direct Cost**
- 26%

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

A. Raymond/The Seattle Times
## The System: How Does Money Flow?

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

How do these dynamics show up for your organization? For the field?

How are you already navigating these challenges? What is working well, what’s not?
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
Nonprofits run two businesses: Mission & Subsidy

- Nonprofit Cost of Service
  - Subsidy revenues
    - Grants
    - Contributions
    - Earned income ventures
  - Direct fees from “customers”
  - Cost-reduction strategies
    - Sweat equity
    - Volunteers

For-profit Cost of Service

- 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
Nonprofits Manage a Portfolio of Activities

Balancing Mission and Money

- High $ contribution, low mission alignment
- High $ contribution, high mission alignment
- Low $ contribution, low mission alignment
- Low $ contribution, high mission alignment

Low Impact

High Impact

Money

Contribution Margin

Mission
Building Comprehensive **Financial** Strength

- **Consistent Surpluses**
- **Mission Success**
- **Capital Structure**
- **Healthy Business Model**
- **Reinvestment into the Business Model**

**Annual Results of Operations**
(found on the income statement)

**Snapshot of Financial Situation**
(found on the balance sheet)
Next Steps to Consider Right Now

1. **Know where you stand**
   - Celebrate and take stock of your key strengths

2. **Begin the process of owning your financial story with clarity and without apology**
   - Begin to unpack your business model dynamics
   - Given the dynamics of the system: what can I communicate to the outside world about what my organization needs?
Worksheet: Take Stock of Your Strengths

- **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
Worksheet: Unpack the Business Model

Income Statement

**Revenue**
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**Expense Dynamics**
- How does your organization’s generate or make money?
- What feels reliable or at risk? How does seasonality play a factor?

**Expenses**
- Personnel
- Professional Fees
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- Support
- Other

**Expense Dynamics**
- How did the organization spend its money?
- What is predictable?
- How responsive can we be to changes? How prepared are we to make hard decisions?

**Surplus / Deficit**

**Profitability & Savings**
- How were costs covered?
- What surplus was available?
### Additional Resource: Business Model

A Sample Budget Template is Available at:

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<th>Organization name</th>
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<tbody>
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<td><strong>Fiscal year end: Dec 31</strong></td>
<td>Actual</td>
<td>Forecast</td>
<td>Reforecast</td>
<td>Budget Without Restrictions</td>
<td>Budget With Restrictions</td>
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<td>Variance Without Restrictions</td>
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*This is just an example, and the revenue and expense categories are not meant to be exhaustive.*
Learning Goals

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

- **Identify strengths & 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 29, 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 and how to navigate uncertainty.
Upcoming Sessions

- **April 15**: Op in Changing World Parts 1 + 2
- **May 13**: Cash Flow Planning
- **June 3**: Understanding Your Financial Story
- **June 10**: Understanding Your Mission & Money Mix
- **June 24**: Strategic Budgeting & Scenario Planning
- **July 1**: Managing Risk & Opportunities
- **July 22**: Financial Leadership for Boards
- **Aug 5**: Economics of Partnerships & Collaboration
- **Aug 19**: Telling Your Financial Story
- **Sept 2**: Understanding Full Cost
- **Sept 16**: Nonprofit Finance Fund
Thank You!

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