

Planning for Growth and Change

Nonprofit Financial Managers Group

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April 28th 2022

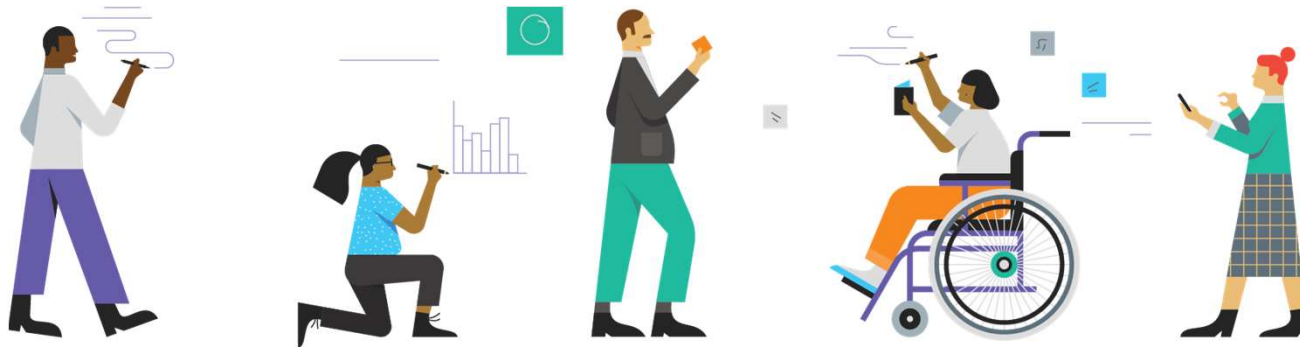


Nonprofit Finance Fund: Where Money Meets Mission

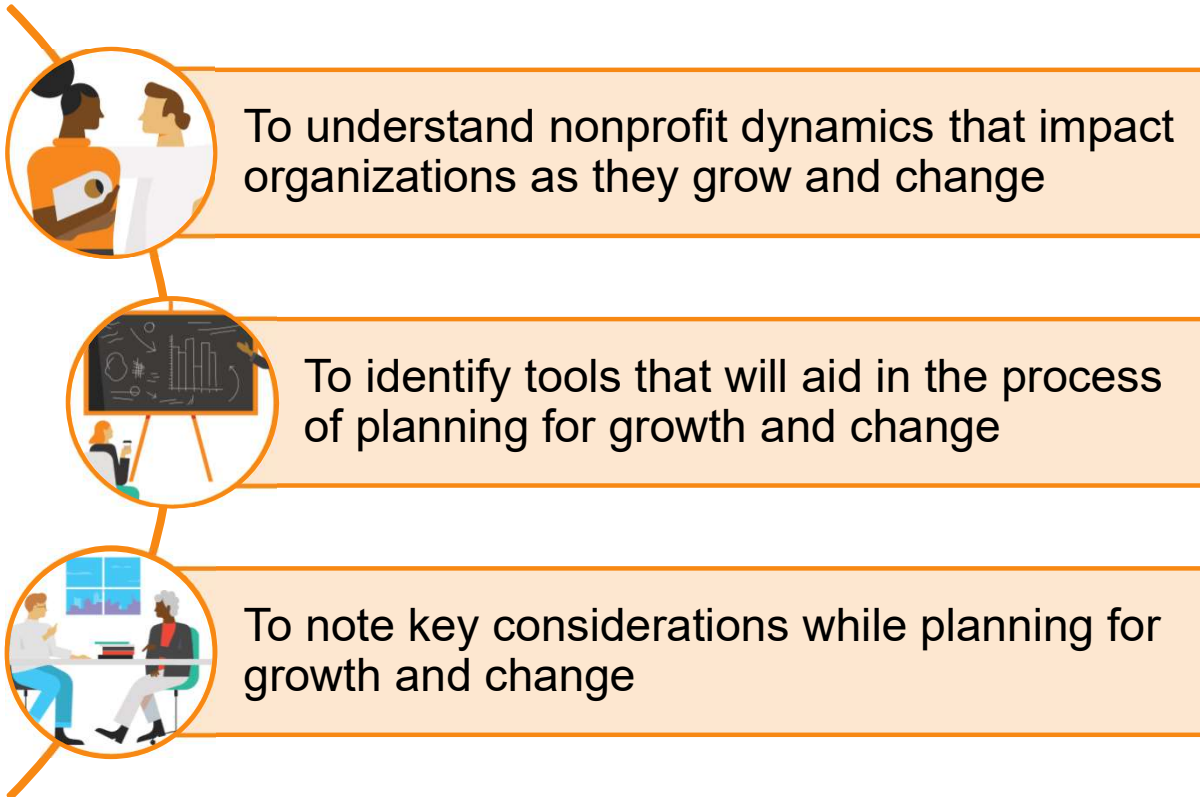
NFF envisions a world where capital and expertise come together to create a more just and vibrant society.

We unlock the potential of mission-driven organizations through:

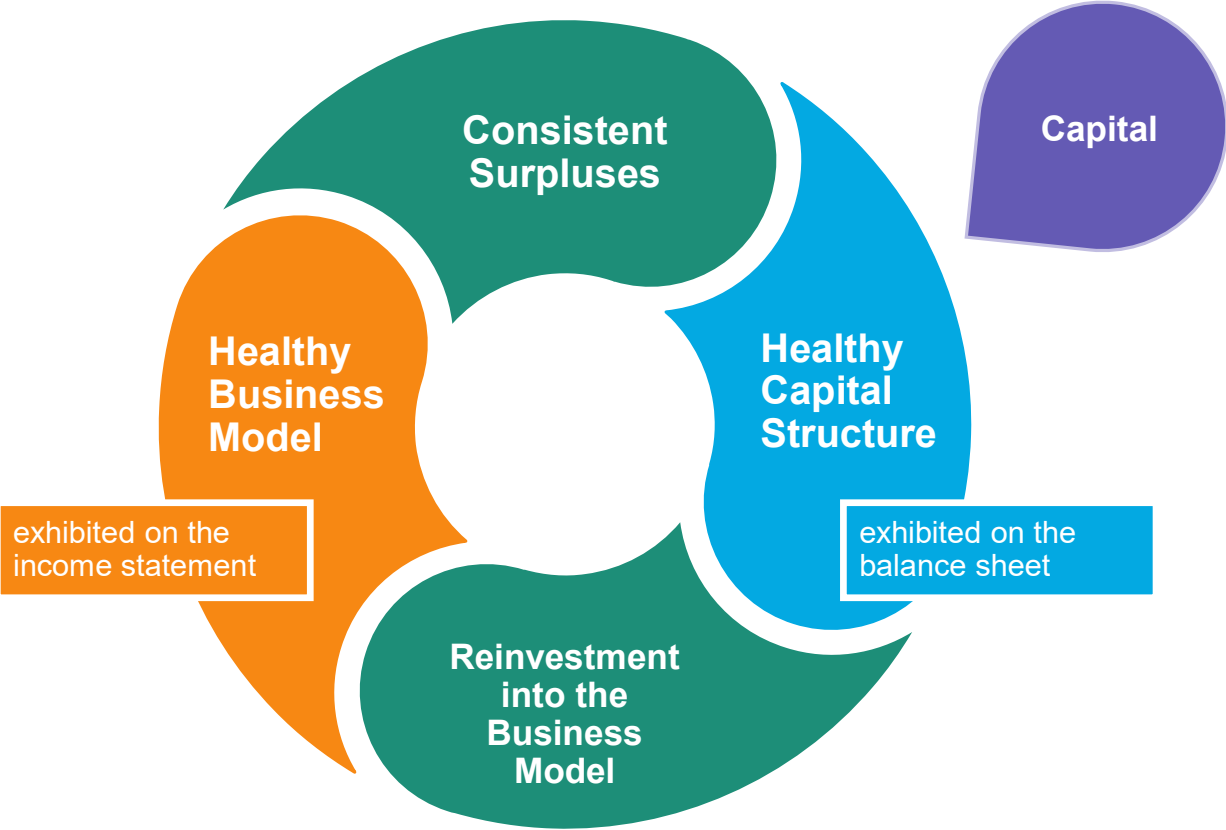
- **Tailored investments**
- **Strategic advice**
- **Accessible insights**



Learning Goals

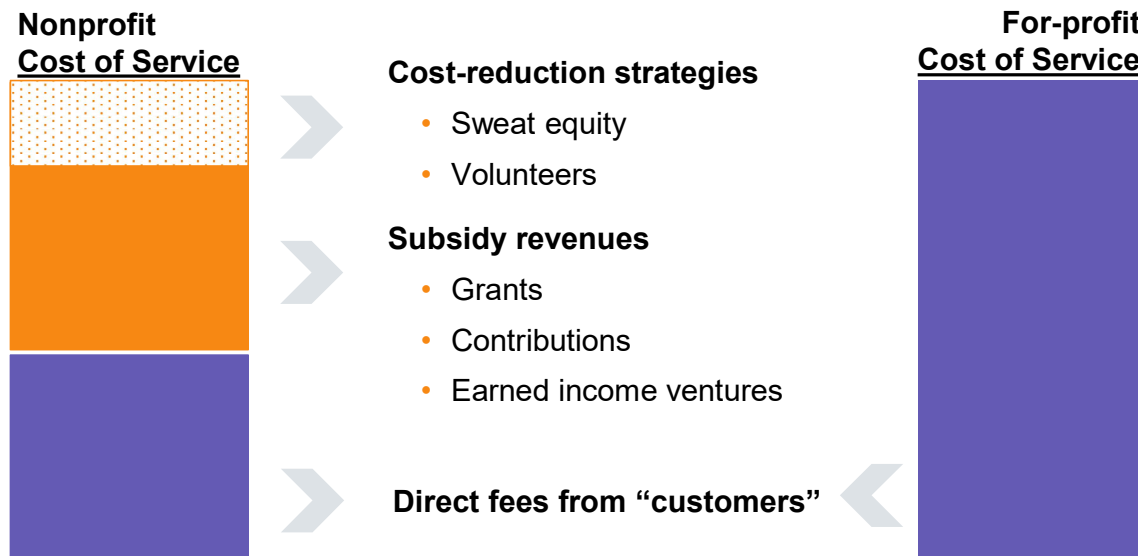


Revenue and Capital Work Together



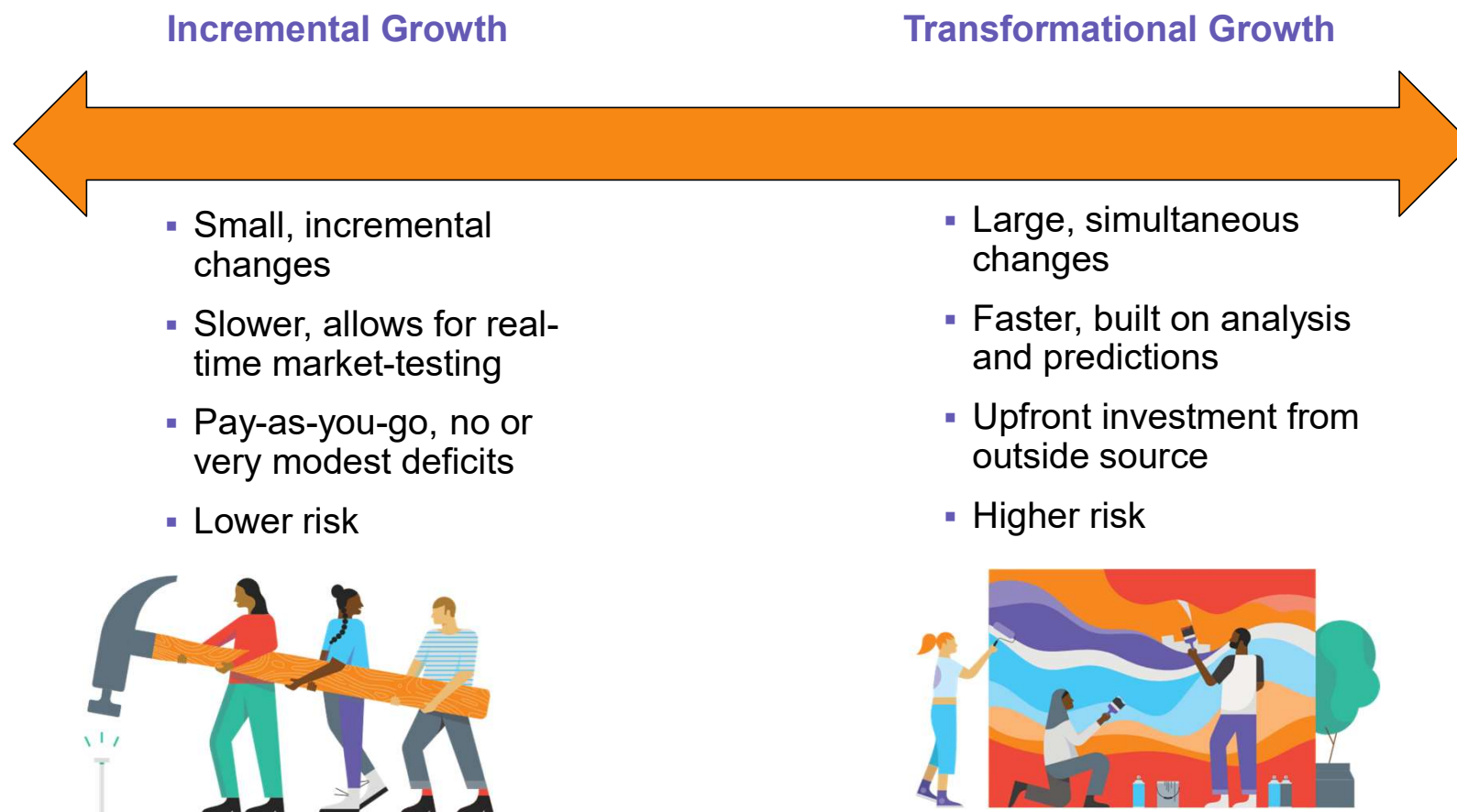
The Truth About the Nonprofit Business Model

Nonprofits must 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

Types of Growth



Management Tools Help You Plan



Day-to-Day Management

▪ Budgets:

- Financial planning/monitoring
- Business variables
- Revenue discounting
- *Note for Growth*: Account for Full Cost needs

▪ Cash Flow Planning:

- Estimating the timing of money
- Anticipating the need to access & repay debt
- *Note for Growth*: Without upfront investment of capital, cash flow can become strained even with a budgetary surplus



Strategic Decision Making

▪ Multi-Year Projections:

- Multi-year planning
- Modeling change
- Growth planning
- *Note for Growth*: Be as conservative as possible on both revenue and expense. Consider balance sheet implications in your analysis.

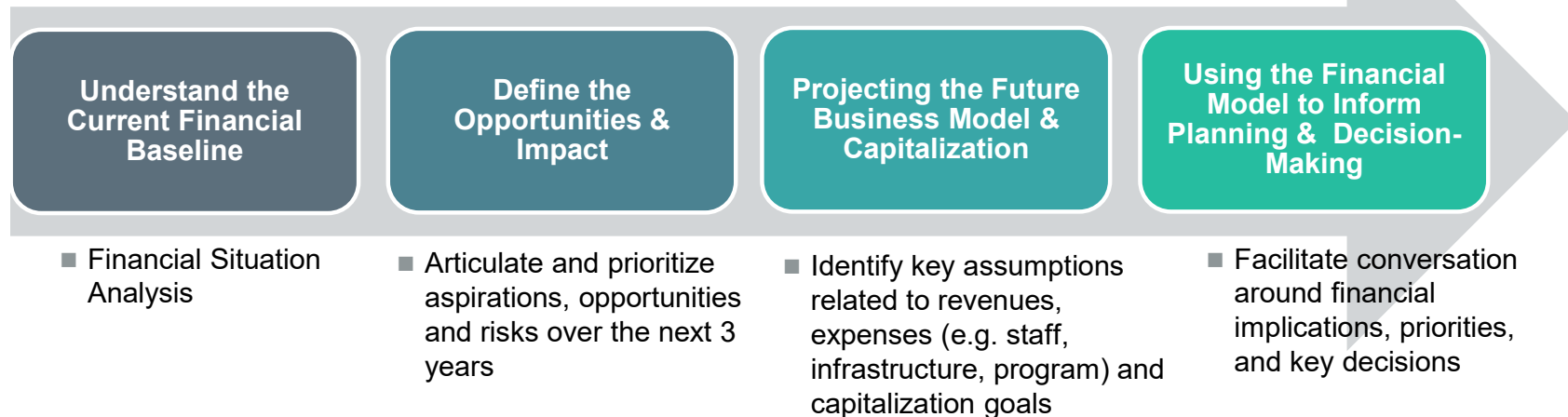
▪ Scenario Plans:

- Articulating the “what ifs”
- Quantifying contingencies
- Identifying triggers
- *Note for Growth*: Consider both “best case” and “worst case” scenarios for strategic decisions

Multi-Year Projections/ Scenario Plans for Growth: Goals & Process

Multi-year projections/ scenario plans can support leadership to:

- Evaluate the **financial impact** of certain conditions, decisions and plans
- Gain **longer-term visibility** into the operations and investments required to achieve both programmatic and financial goals
- Prepare for **change** based on estimated future financial results
- Create a **shared language** for articulating financial information and resource needs to internal and external stakeholders



More support on Budgeting and Scenario planning can be found here:

<https://nff.org/fundamental/nonprofit-financial-management-webinars#StrategicBudgeting>

Each scenario should include...

How much revenue can we expect as a result of our strategy and investments?

How much do we expect our strategy to cost?

How much non-operating capital do we expect to make and spend during this period?

	FY21	FY22	FY23
Revenue			
(A) Unrestricted Contributions			
Corporate Contributions			
Individual Contributions			
School District Contributions			
Government Contributions			
Foundation Contributions			
Subtotal			
(B) Earned Income			
Earned Program Related Revenue			
Dividends and Investment Income			
Subtotal			
(D) Net Assets Released from Restrictions			
Net Assets Released- Foundations			
Net Assets Released- Corporations			
Net Assets Released- Government			
Subtotal			
Total Revenue Without Restrictions			
Expenses			
Personnel			
Contractors			
Prof Fees			
Meeting/ Event Expenses			
Travel Expenses			
Data/IT			
Communications			
Occupancy			
General/ Admin			
Programmatic Expenses			
Depreciation/Amortization			
Awards and Grants			
Membership/Dues			
Subscriptions			
Professional Development			
Other 2			
Other 3			
Total Expenses			
Unrestricted Operating Surplus/Deficit			
Non-Operating Section			
Non-operating revenue			
Net realized and unrealized gains (losses)			
Total non-operating revenue			
Non-operating expenditures and other items			
Building Purchase			
Total non-operating expenditures and other items			
Net non-operating, one-time items			
Operating + Non-operating Surplus/Deficit			
BALANCE SHEET Indicators			
Net Assets			
Available Net Assets (w/o strategic reserve)			
Net Assets with Donor Restrictions			
Months of ANA (w/o strategic reserve)			
Months of Cash and Investments			
Capital Reserve for Building Repairs			
Strategic Reserve Fund			

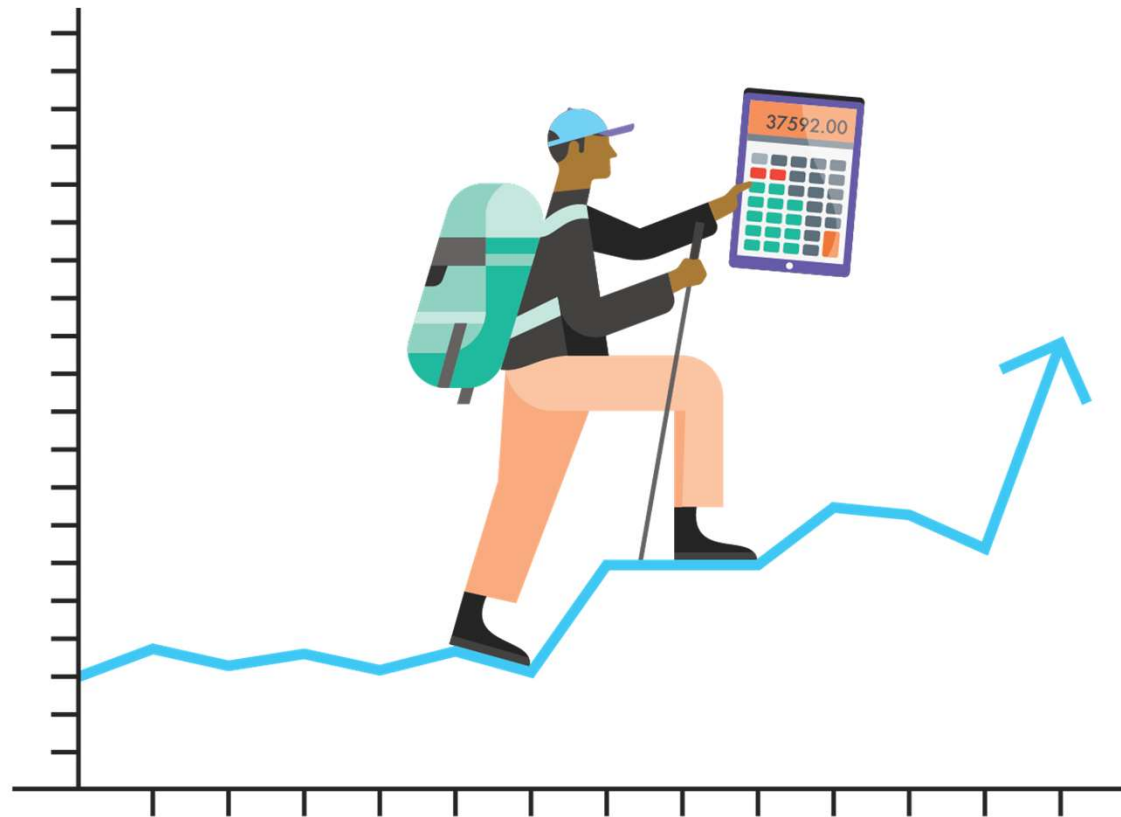
Extending projections 2-3 years

What will be our yearly revenue on an unrestricted basis?

Do we expect our business model to produce a surplus by the end of the period?

How will this period affect our balance sheet?

Key Assumptions for Modeling Growth-Full Cost and Change Capital



What is Full Cost?







A better way to talk about cost in the nonprofit sector

Full cost names and claims all the financial resources it takes to run an effective organization for the long haul

- Lifts the sector out of the false dichotomy of program vs overhead
- Captures both short- and long-term needs
- Holistic, grounded in context, allows for nuance and change over time
- A tool to advance racial equity
- Aligned with Trust-Based Philanthropy



Three ‘Must Haves’ Apply to Every Organization

	Total Expenses Operating, non-operating, and unfunded expenses	Must have for <i>all</i> organizations
	Working Capital Access to cash for day-to-day needs	
	Reserves Savings, a “rainy day” fund	
	Debt Principal Repayment Mortgage, line of credit, etc.	Sometimes needed by <i>some</i> organizations
	Fixed Asset Additions Money to purchase a new building, new computers, or new vehicles	
	Change Capital Resources to adapt, grow, partner, or down-size	

Growing revenue must address full cost needs for growth to be sustainable

Defining Two Different Types of Money

Nonprofits need both to thrive

Revenue (Buy)

- Reliable, repeatable, and/or replaceable
- Covers annual costs of programs and operations
- Pays for organization services
- Pays for organization overhead

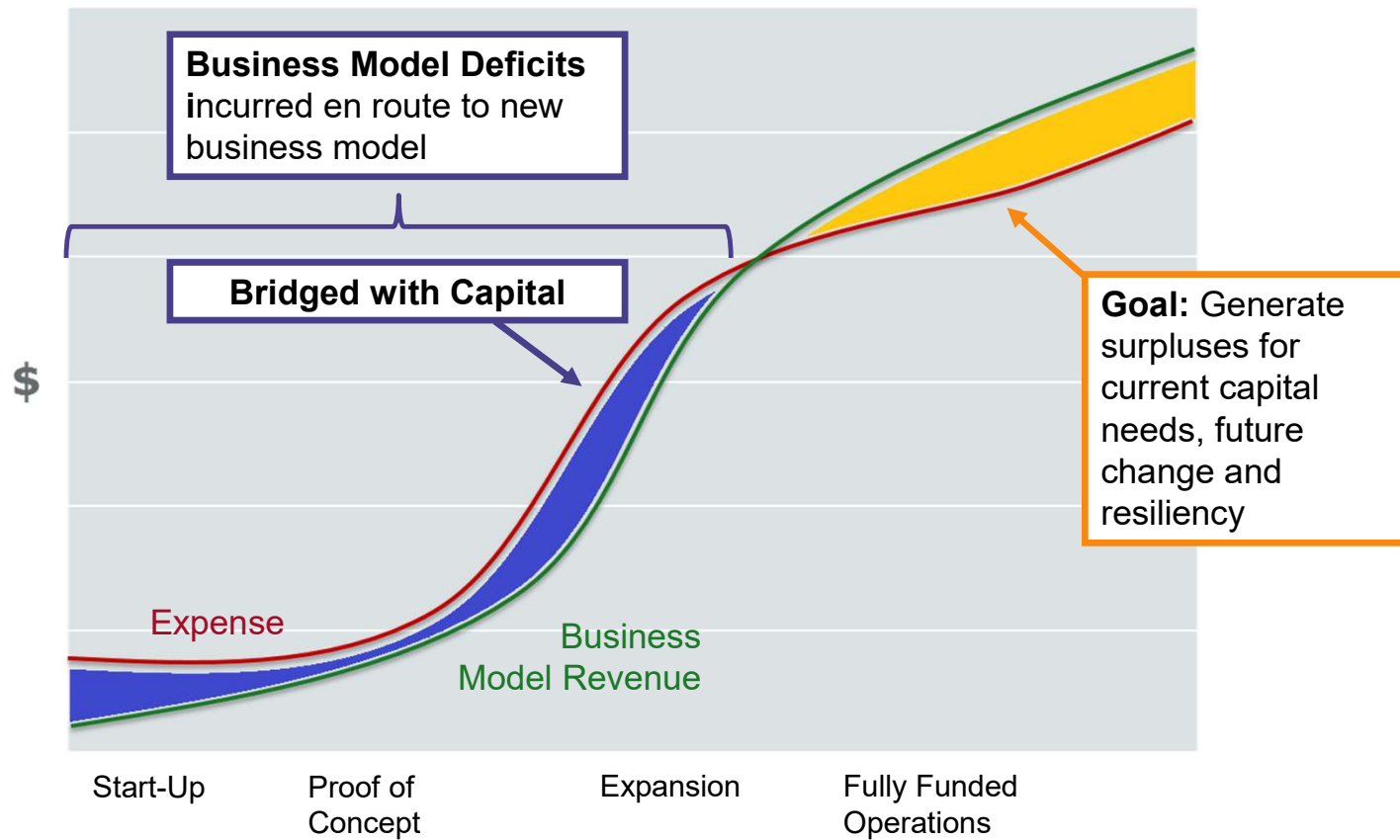


Capital (Build)

- Episodic in nature
- Supports enterprise health
- Pays for extraordinary needs
 - liquidity
 - adaptability
 - durability



The Path of Transformational Growth and Change Requires Capital

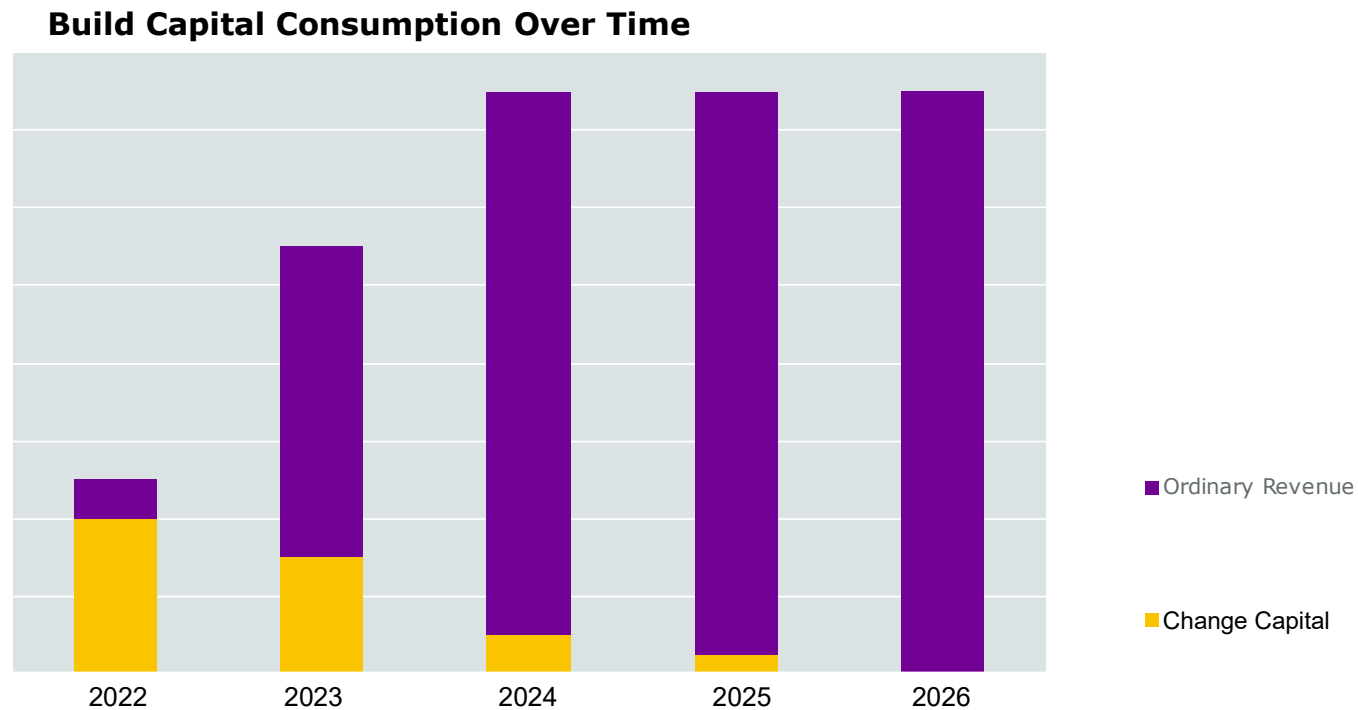


Change Capital

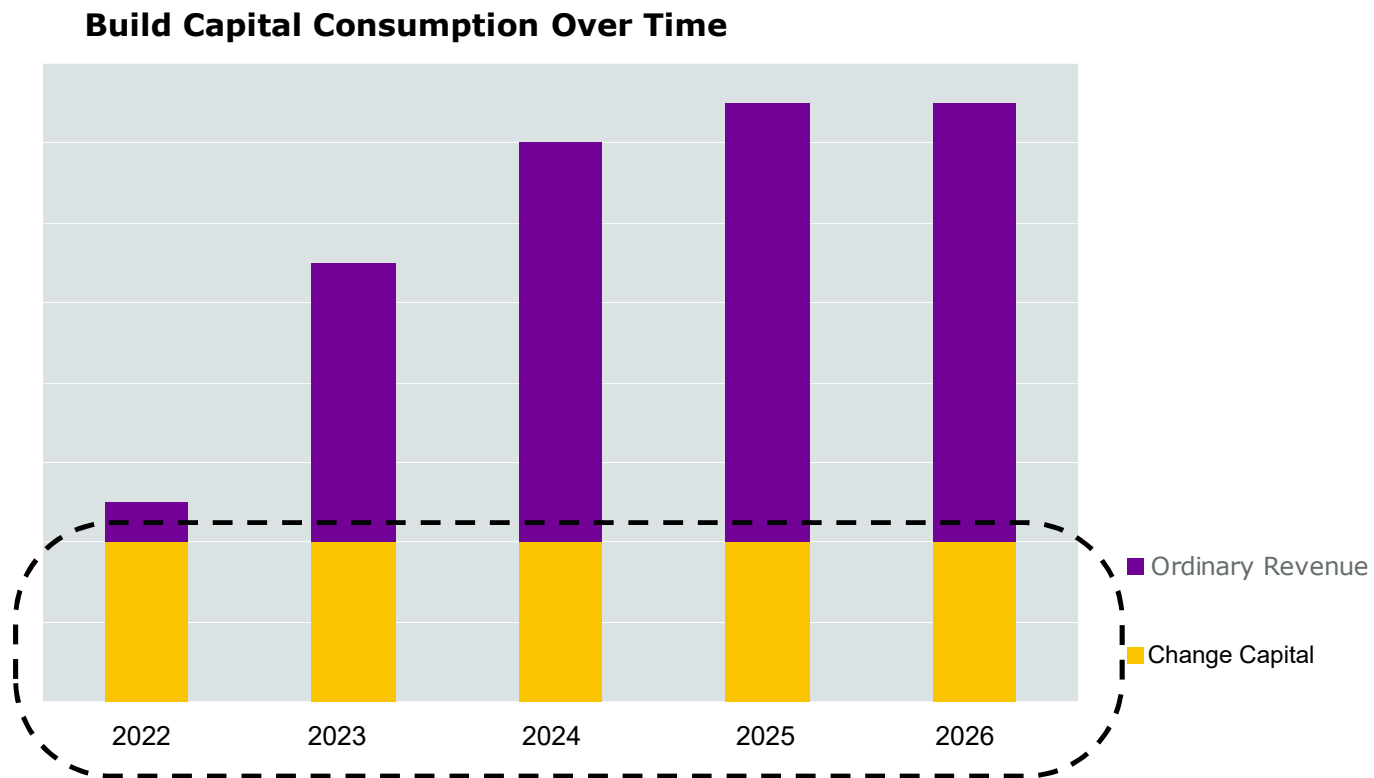


What It Is	<ul style="list-style-type: none">• Periodic reinvestment into the organization to change its business model (i.e., the size or reach of mission and/or how to make and spend money)• Covers up-front costs of change and deficits until new business model revenue exceeds new business model expenses• Typically large, flexible, multi-year funding from an external source
What It Is Not	<ul style="list-style-type: none">• Organic growth
How to Calculate	<ul style="list-style-type: none">• Detailed projections for a surplus-generating business model<ul style="list-style-type: none">• planning/up-front/startup costs for revenue generating activities, programs, and other infrastructure• Timeline to secure new revenue and revenue sources
Questions to Consider	<ul style="list-style-type: none">• Will any program/service approach delivery require “change”?• What sources of change capital might exist to finance this change?• How are you planning to outgrow change capital?

Change Capital Is Intended To Support Business Repositioning



When Change Capital is Mis-Applied

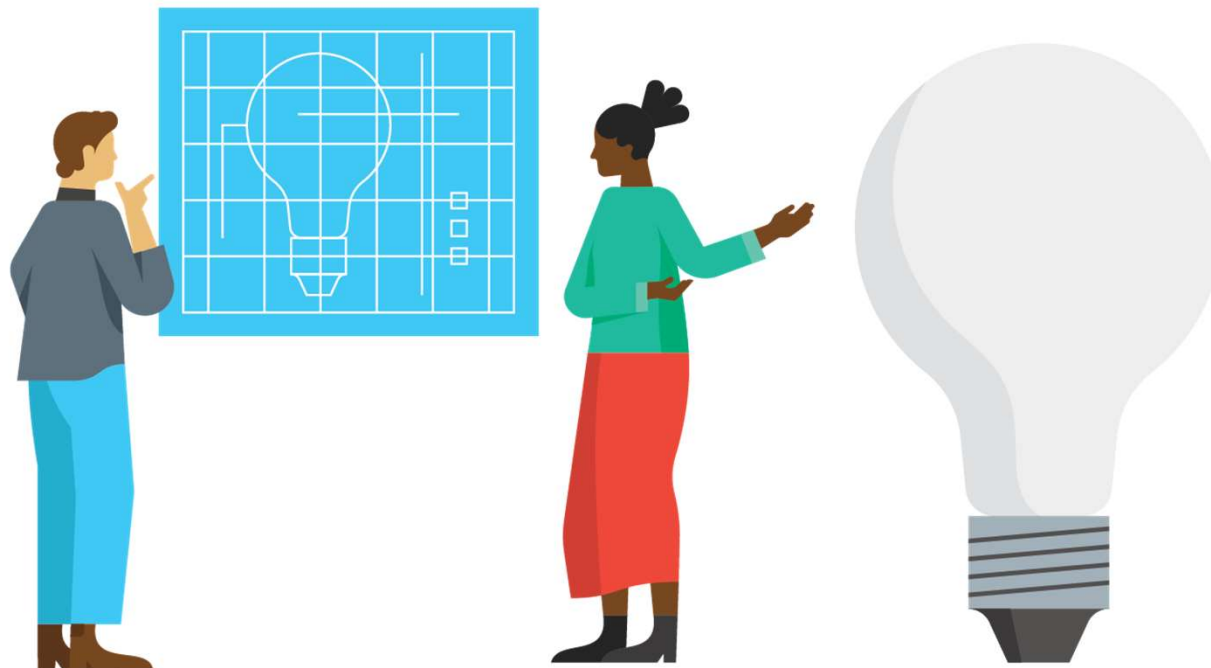


Take Your Financial Pulse, Now and Over Time

	“Room to Breathe”	“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 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>
Implications for managing risk & opportunity	Can tolerate risk and jump on opportunities. Are there possibilities for growth?	Limited ability to withstand risks and pursue opportunities. Can you maintain surpluses so long-term stability is not affected?	Little tolerance for risk, opportunities can be risky for stability. Focus on nimble decision-making to generate surpluses while maximizing mission impact.	No room for error, opportunities should focus on ways to avoid deficits while maximizing mission impact. Nimble decision-making is crucial.

As budgets grow, balance sheets should ideally grow proportionally. It is important to have a long-term capitalization plan for the size you expect to be in the future.

Questions



Thank You!

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