



# Nonprofit Strategic Financial Planning

*2020*



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## Extraordinary Causes Deserve Extraordinary Service

At First Republic, we pride ourselves on helping our nonprofit clients reach their fullest potential. The nonprofit organizations we serve benefit from financial solutions, unparalleled service and thought leadership forged from two decades of mission-driven partnership. What's even more powerful is what our 4,000-strong nonprofit community can learn from one another. We believe all missions are made stronger when best thinking and innovative solutions are shared.

We teamed up with Rahul Tripathi, Chief Financial Officer and Chief Operating Officer of [The Brearley School](#) in New York City. Tripathi has not only offered his approach — what he calls a “Surgical and Strategic Financial Plan” — to planning, but also his perspective as a member of the leadership of two New York-based nonprofit boards: [Opening Act](#), where he serves as Co-Chair, and [The Center](#), where he serves on the Executive Committee.

Financial planning for the near and long-term future may feel like a daunting task for many nonprofits. We developed this guidebook to help organizations think critically and assess their current financial standing, make adjustments in the short term and establish long-term programmatic sustainability. Through this guidebook, we hope that nonprofit Chief Financial Officers, Chief Operating Officers, board members and financial decision-makers will be eager to take on these challenges and make informed decisions for the future success of their organizations.

It's important to note that this doesn't constitute specific financial advice for any organization, but rather a framework that might prove helpful to resource-constrained organizations as they navigate this period of turbulence.

## Lay the Groundwork

### Assemble a taskforce, determine your desired outcomes and set a schedule.

In a financial crisis, it can be helpful to assemble a nimble taskforce of people, skilled in finance and operations and dedicated to answering three fundamental questions for the near-term viability and long-term sustainability of the organization:

- Retrospectively, what has the total financial impact of this crisis been?
- Looking forward, what does the future hold for the organization from a financial perspective? In other words, what will the impact of another two or three (or more) quarters of disruption be?
- How will this impact the delivery of program(s) and, thereby, the mission of the organization?

This taskforce should comprise of leadership of the board and leadership of the organization, as appropriate. From the organization, it's ideal to involve at least the executive director, a program director and the financial officer.

The most effective taskforces have clearly stated desired outcomes or deliverables and a schedule — whether it's a six-week period or a three-month study, with a culminating event such as a board meeting. This dedicated group may meet weekly or more or less often, depending on the urgency of the needs of the nonprofit.

Regardless of where your organization is in the fiscal year, you can use the following guide to assess — and reassess, as new information arises — where you are as an institution so you can chart the course that's right for you.

## Overview: Strategic Financial Planning

### Step 1: Assess your current and near-term financial situation.

- **When this happens:** Before the next board meeting
- **Who's involved:** A small taskforce with expertise in finance and operations, with representation from leadership of the board, members and leadership of organization
- **What happens and why it's important:** The small taskforce emerges with a cost basis of your programs, so you can prioritize the order and magnitude of your adjustments in Step 2.

### Step 2: Understand surgical and strategic financial planning.

- **When this happens:** Before the next board meeting
- **Who's involved:** The taskforce and the organization's administration
- **What happens and why it's important:** The taskforce and administration articulate a list of revenue shortfalls, as a baseline, so you can determine potential expense reduction. The output is a list of revenue initiatives and expense reductions that will be vetted by the organization's administration. With the approval of the executive director and leadership team, these recommendations then go to the board for voting.

### Step 3: The Surgical: Adjustments and Taking Action in the Short-Term

- **When this happens:** After the board has signed off on taskforce recommendations, these adjustments should be implemented as appropriate and communicated with thoughtfulness and empathy.
- **Who's involved:** The taskforce, executives of the organization, Human Resources, Marketing and Communications
- **What happens and why it's important:** Adjustments and “meaningful cuts” occur to reflect changes made to the organization at an institutional level, helping to ensure that your nonprofit is able to weather the storm.

### Step 4: The Strategic: Creating Long-Term Sustainability

- **When this happens:** Right after Step 3, so you don't lose momentum
- **Who's involved:** The taskforce, executives of the organization, board members, program directors and banking partners
- **What happens and why it's important:** These are the “good, orderly actions” that your organization can do, right now, to establish sustainability beyond 2021.





## Assess Current and Near-Term Financial Situation

### Plan time for review

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For any organization, a holistic assessment of the current financial situation is a fundamental first step in developing a cohesive financial plan. During a crisis, this assessment is even more critical for nonprofits without significant reserves.

As a framing question, it can be helpful to ask, “These are extraordinary circumstances; given future constraints, how are we going to cut expenses, enhance revenues and/or modify the delivery of programs as an organization to make sure we’re able to balance our budget and make the best possible use of scarce resources?”

Your organization may have already passed its annual budget, but in times of extraordinary economic uncertainty, it’s never too late to evaluate your resources with a clear, critical eye and revise budgets accordingly.

### Recalibrate focus on the mission

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Given the wide-ranging ramifications of COVID-19, retest your revenue assumptions and expense assumptions, then marry the two: assumptions that may have held true during the spring months of the pandemic may no longer be valid. Aligning revenues and expenses is key to preserving the programs of the organization.

Nonprofits, by their very nature, don’t seek to maximize profit. Success, for a nonprofit, means maximizing the impact of its mission and programs. Therefore, any assessment of a nonprofit’s finances must extend beyond the usual profit and loss considerations. The driving question must be: “How will the decisions we make impact the mission of the organization and our ability to effectively deliver our program(s)?”

### Consider a holistic view

As stewards of the organization's resources, board members and leadership are tasked with optimizing many variables at once. Often, a nonprofit decision-maker isn't limited to finding a solution for one single factor, such as expense reduction. Instead, they're examining staffing, fundraising and numerous other considerations to develop a plan for the overall health of the organization, all while protecting the program and mission of the organization for the long term. Analyzing programs or any single factor in isolation won't likely solve the entirety of the problem.

For organizations with more than one program, consider a new model of sorting and evaluating the organization's budget by program; rather than designing a traditional budget that's focused on expenses and revenues, divide your budget by program delivered.

With this framework, you'll be able to identify the cost base of each program asking, "Is it self-sustaining?"

For your most profitable programs, their share of revenues will exceed specific expenses. The table on the next page allows you to assess whether your most profitable programs are carrying the cost of other programs that aren't self-sufficient. As a steward of your organization's resources, ask yourself, to what extent is that desirable or intended?

### Explore alternative paths

For programs with expenses that exceed their portion of total revenue — in short, programs that are non-self-sufficient and may be a drain on the overall financial health of the organization — there are several options:

- Is there a more efficient way to carry out that program, i.e., improvements you can make now?
- Is it a program that you can pause and re-engage in the future when finances permit?
- Are there other agencies that can assist in carrying or could carry that program? (This speaks to merging and divesting options.)

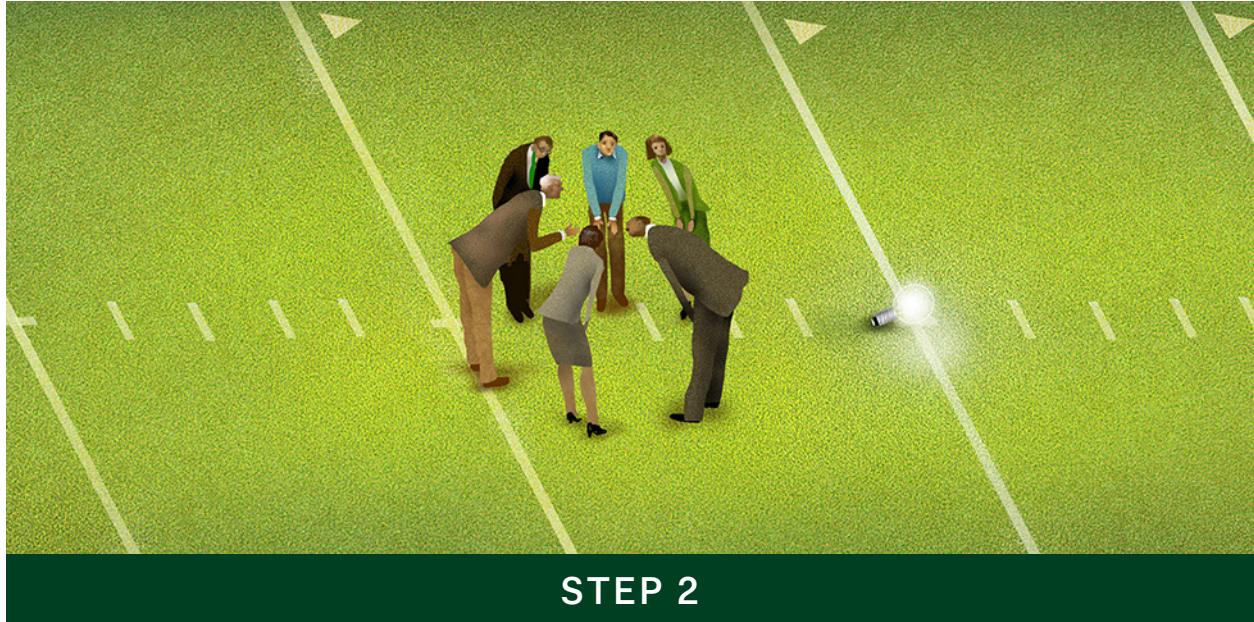
Next, what's the organization conservatively expecting in terms of other revenue coming in for the fall season? The Small Business Administration's Paycheck Protection Program (PPP) may have helped bridge the gap between expenses and revenues in June or July, but ongoing complications due to COVID-19 may have an impact on fall revenue.

Last, assess the state of your reserve funds: Do you have any surpluses from the prior years? Ideally, as a rule of thumb, organizations should have several months' worth of savings to cover operational expenses at all times.

## NONPROFIT STRATEGIC FINANCIAL PLANNING

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	Program A	Program B	Program C	TOTAL
<b>Revenue</b>				
Government grants and contracts				
Foundations				
Corporations				
Major donors				
Planned giving				
Fundraising				
Membership and program income				
Other revenue				
<b>Expenses</b>				
Salaries				
Employee benefits				
Overhead expenses				
Rent				
Supplies				
Insurance				
Fundraising fees				
Discretionary expenses				
Miscellaneous expenses				
<b>Net Total</b>				



## STEP 2

# Understand Surgical and Strategic Financial Planning

## Optimize resources

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Once you've conducted a holistic financial assessment, you can get started on a strategic financial plan to make the best use of scarce resources and maximize program delivery.

Simply put, an organization should have a sustainable and balanced budget in both the short and long term. This might look very different in the sort of financial duress many organizations are currently experiencing.

Use total compensation (including both salary and benefits), plus any program-related expenses and overhead and other expenses (contracts, consultants, etc.) as a baseline for overall costs. Now, project that figure forward on a monthly basis.

For this step, the framing question is, "Once the assessment is complete, what should an organization do if you're forecasting a deficit?"

For example, let's take a look at Opening Act, a Brooklyn-based organization that provides high school students with opportunities to develop leadership, community and commitment through its free After School Theater Program — and where Tripathi currently serves on the board. In forecasting the upcoming year, Opening Act will have 75 percent of its typical operating budget given a projected revenue loss from cancelled, postponed or altered events.

## Identify and diversify revenue streams

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As this designated taskforce prepares recommendations for the next board meeting, consider all of the revenue stream options available to you. Every nonprofit's situation is unique; keeping in mind the financial assessment from Step 1, be realistic about which of the following levers your organization can reasonably lean on to generate more revenue.



Each revenue type and source has its own levels of reliability, constraints and costs. A potential new source or tactic may not align with the organization, its stakeholders or other revenue sources. Some types of revenue streams may be beyond existing organizational capacity, and many types of revenue streams may require a setup, personnel or a “runway” period where they cost more than what they bring in.

An effective fundraising plan incorporates multiple revenue sources and techniques: establishing ongoing funding (ideally unrestricted) is your foremost priority, followed by other types of program-specific funding that will grow the organization and ensure its long-term viability.

It's important to reconnect with grant-making organizations, foundations and major donors, which can be significant sources of revenue for a nonprofit. Below is a framework for how to approach the request for funds in the current environment.

#### **Grant-making organizations and foundations**

A multi-year, unrestricted grant can be absolutely transformative for an organization used to operating without any surplus. Often, funders may want more data than nonprofits are able to provide, and nonprofits that can prove outcomes receive more funding. Given the current environment, it's worthwhile to ask grant-making organizations to relax restrictions around reporting.

#### **Major donors**

Due to the uncertainty created by COVID-19, your major donors may have been impacted by market volatility and may hold off on making commitments in the near term. However, the current environment may present an opportunity to speak to donors about their financial and estate plans, and ask them to consider earmarking their legacies for nonprofit gifts.

Talk to your prospective donors about blended gifts — that's when one donation benefits a specific campaign, while another is designated for planned or annual giving. Asking for blended giving can be a sound strategy if a donor cannot give right now at their original capacity.

#### **Corporations**

Flexibility with your corporate partners is key as for-profit companies re-evaluate their own finances and budgets for corporate sponsorships, especially in light of cancelled in-person events such as galas or conferences.

Tip: Position your request as, “The state of the world is such that we're not certain about events at all, but especially not certain about fall events. Would your organization consider a different type or level of support for this year?”

Work with your corporate partners to explore options such as in-kind donations, employee volunteerism or employee donation-matching

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programs. Companies with corporate governance programs may be eager to demonstrate their commitment to the communities that your organization supports.

### **Charitable giving**

COVID-19 is creating new needs for communities and individuals who may be facing their own financial pressures. Collaborate with your fundraising teams on how you may approach communications with donors.

A capital campaign is a time-limited effort by a nonprofit organization to raise significant dollars for a particular project, such as funding a new building, raising funds for a specific project or increasing one specific asset, such as an endowment. These can span several years, and your organization may be in the midst of a capital campaign and deciding how to proceed.

Consider whether a COVID-19-specific campaign may help you bridge the gap in funds, if you are beginning the fiscal period with a forecasted deficit. Not all organizations will be able to fundraise enough to break even through such a campaign, but if there are untapped resources, it's worthwhile to get creative in outreach.

As you revise your organization's budget, be cautious about what your events will yield in donor attendance and revenue. Again, test your expense and revenue assumptions, and then marry the two, in order to make decisions about flagship events that may have been modified or held virtually in light of the pandemic.

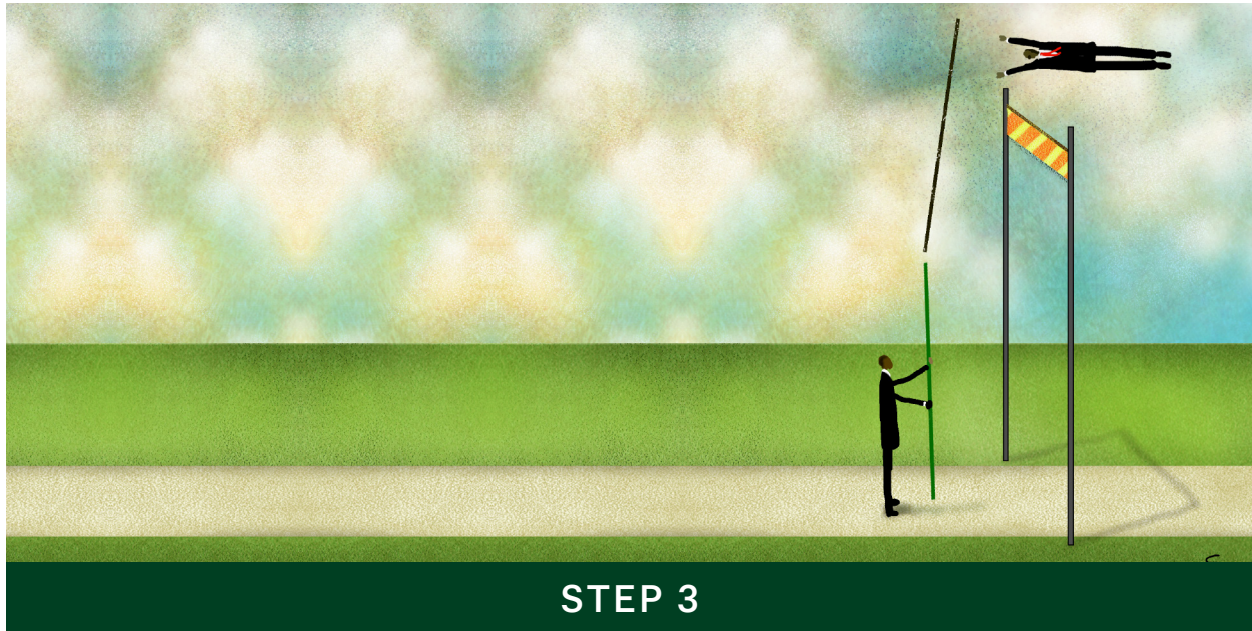
Take, for instance, Cycle for the Cause. Cycle for the Cause is a signature fundraising and cycling event held annually by The Center — where Tripathi also

serves as a board member, and which empowers LGBT people to lead healthy, successful lives. The event, which typically raises more than \$2 million, is converting to a virtual fundraiser and being rebranded as The 275 Challenge. Although inspired by the original event, The 275 Challenge is expected to generate considerably fewer funds given the predicted level of attendance and the difficulty of fundraising for virtual events. Some adjustments are helping offset the anticipated variance, such as opting out of renting physical venues, providing meals and coordinating lodging. With this example in mind, consider your annual flagship events and forecast conservatively for net revenue generation.

Finally, decide as a taskforce what to do with your reserve funds, if you have them. Ideally, an organization should have at least six months' worth of savings to cover operational expenses at all times. Determine whether your reserve funds will be used to defray any shortfalls.

Your assessment from Step 1 is where you are as an organization. Your revenue projections from Step 2 is where you need to be. Based on Steps 1 and 2, your taskforce is ready to present the board with a series of recommendations for their signoff.

The role of the board is to present guidance and ultimately approve this next part of this strategic plan. The leadership and administration of the organization has to be responsible for driving the nonprofit forward. Go into the board meeting with a strong stance on whether your existing programs are serving the mission, what reductions you need to make and the initiatives you need to accelerate in order to ensure the sustainability of your organization.



# The Surgical: Adjustments and Taking Action in the Short-Term

## Navigating the Path Forward

When hosting a financial assessment and planning discussion with the board, leadership of the organization must determine the best way forward to sustain the organization's mission and make meaningful cuts to the existing budget.

Some of these cuts will be painful. Again, remember that the concept of corporate "profit and loss" does not apply to nonprofits. The success of an organization is measured by the optimization of the delivery of programs. You're taking actions to ensure the organization's survival.

As a member of the taskforce, you can use the findings of cost basis per program from the assessment in Step 1 to help prioritize the order and magnitude of these adjustments.

For many organizations, the largest fixed costs will

be total compensation; however, sometimes furloughs or layoffs don't need to be the default solution. Every organization's programs and cost basis per program will vary. Below is a general framework for how to approach these meaningful cuts in the short term.

### Considerations for the Small Business

#### Administration's Paycheck Protection Program

If you have received a loan from the Small Business Administration's Paycheck Protection Program (PPP), stay up-to-date on the conditions required to qualify for loan forgiveness. This is an evolving situation as the federal government issues clarifications and relaxes PPP rules, but it's important to address.

#### Managing overhead and other expenses

Identify any opportunities within the organization where changes can be made to minimize non-compensation

expenses. This can include making adjustments to rent, contracts, supplies, operations, maintenance, and more.

### **Curtailing elective benefits expenses**

Many nonprofits have rich elective benefits programs. Partner with your Human Resources and Legal team on best practices for reducing benefits-related costs in the short term while maintaining the staffing needed to continue critical programs. Limiting certain benefits, such as decreasing contributions to retirement funds, can be helpful in reducing institutional costs. It might be unwise to cut too many benefits in the long term because that may diminish staff retention. Limiting benefits, from the perspective of your employees, is often better than furloughing or laying off staff. Talk to your Human Resources team to learn what's feasible in terms of contracts with service providers.

### **Staff furloughs and layoffs**

In general, many organizations wish to consider this the last resort. Refer to the cost basis per program, from Step 1's assessment, to determine where these painful cuts need to happen.

To keep critical services running, leaders should evaluate all options, including reduced levels of activities, a different mix of programs and new means of

service delivery. You may also elect to move staff from non-self-sustaining programs to revenue-generating or self-sustaining programs. This may entail a shift in responsibilities (training employees in a new means of service delivery) or performing the same role in a different program or physical location. For example, a youth club organization may choose to suspend all in-person sports, rentals and events, and then pivot to distributing take-home meals, connecting youth with online counseling services and launching a virtual program to keep young students engaged and learning.

### **Executive compensation**

Keeping executive compensation flat or reducing it for a period of time is often a consideration in order to avoid making other types of budget cuts.

Consider partnering with your Marketing and Communications team, if feasible, to sensitively communicate these tough decisions as they impact various teams within the organization. It can be helpful to reiterate that these are not elective decisions; these are necessary and painful decisions.

If you're opting to furlough employees, be transparent about the expected timelines for when impacted staff can return to work. As you create a "re-opening" or "return to office" plan, make it clear that you're looking out for your staff's best interests and safety.



# The Strategic: Creating Long-Term Sustainability

## Strengthening your foundation

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Many organizations may be undergoing drastic changes now. Once the tough decisions are made for short-term viability, it's time to step back and think about the "good, orderly actions" that your nonprofit can do, right now, to establish sustainability in the long run. These actions will vary by organization. Below are some considerations.

### **Continuation of taskforce**

You've already created a small taskforce of people who understand finance and operations, encompassing board leadership, organization executives and select staff members. Decide how long that taskforce will be in effect,

how often to meet as you head into 2021 and how to best communicate your learnings to your stakeholders.

### **(Re)introduction of programs**

Through the lens of cost basis per program, evaluate the proposed timelines for any non-self-sustaining programs that you've paused. Now that the most painful cuts have been made, are the timelines you've initially set still feasible?

### **Diversification of revenue streams**

In tandem with reintroducing programs, revisit the exercise from Step 2 as you explore the options available to you. Think about when and how to bring in teams within the organization to execute this diversification.



### Continuation of expense management

Of the expense reductions made during Step 3, which, if any, might be ongoing?

### Implementation of endowment or investment management

There are concrete steps that CFOs and boards can take now to shore up their financial standings and endowment. Review your investment policy and determine the best course of action for working with your investment manager.

An [effective external endowment manager or consultant](#) can:

- Ensure that your allocation is appropriate for your investment goals.
- Ensure that the funds or managers selected to build the portfolio have reasonable fees and performance history.
- Closely inspect your overall investment options, combing through for unnecessary redundancies that can sometimes hamper returns and often crimp risk mitigation strategies.
- Help avoid an unhealthy reliance on proprietary investment options.
- Make tactical adjustments as external events shift and internal motives transform.
- Keep you up-to-date on accounting changes and evolving investment policy issues.
- Compare your endowment returns to your peer group.
- Ensure that your investment strategy is aligned with your mission and values as an organization, as well as your financial goals.

### Assessment of board governance

Nonprofit boards play a critical role in their organization's success, especially through times of crisis. Think of the implications of the pandemic as the ultimate stress test for your organization's relationship with your board. What went well, or better than expected given the circumstances? What could be improved?

Through the lens of your hard-won experience, assess the composition of your board and diversify board members as feasible. As a baseline, board members should be fierce advocates of the mission or "the why" behind your organization.

Tip: Consider starting every board meeting with the reading of the mission statement out loud to remind everyone why they're there.

Diversity across industry and professional background is also important; bankers on a board will be best-equipped to solve finance-related problems, whereas lawyers will contribute their legal expertise. Through Steps 1-3, was there a gap in knowledge that impacted your taskforce's decision-making? Now is the time to develop the board that can ensure a financially viable and healthy organization in the long run.

Junior boards can be an effective way to test potential board members at a low cost; young, eager, committed professionals could bring a level of enthusiasm and fresh ideas that more seasoned board members may benefit from. Ask [these questions](#) to determine whether a junior board may be right for your nonprofit.

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### Evaluation of banking partner

When it comes to reaching your organization's full potential, you need partners who understand both you and your industry, inside and out. Talk to your bank and utilize them as a partner, especially if you have debt or other pressing financial needs.

These five questions can help you evaluate whether your bank is a good fit in supporting your organization, helping you attain your goals and adding value to you, your team and your trustees.

1. Is your bank strong and sustainable?
2. Is your bank committed to excellence in client service?
3. Does your bank have a long history of — and expertise in — serving nonprofit organizations?
4. Does your bank offer products and services

to address the unique financial needs of your organization?

5. Does your bank offer products and services to take care of your most important asset: your people?

Great service and execution can boost your team's ability to fulfill your mission. Make sure that your partner offers thoughtful solutions designed to meet your organization's needs.

### Review of reserves

Check in on your reserves, based on the Step 1 assessment, and create a plan for building six months' worth of savings to cover operational expenses so your organization will be able to weather future storms.



## Forging Ahead

When challenges strike, it's often difficult to simply put one foot in front of the other; the immediate fixes and short-term resolutions become the norm as farsighted planning seems more and more difficult to grasp.

We can all share in the challenges that COVID-19 has rooted in our everyday lives — and even more so, the nonprofit community can share in the unique financial challenges that are forcing organizations to be nimble yet plan ahead for an unpredictable future. It's an inherently daunting task, but one that, when

following the necessary steps, will ensure that your mission and programs remain at the forefront of your work.

Now more than ever, you and your constituents must come together to leverage your collective skills, experience and knowledge to put forth a pragmatic plan to not only survive this pandemic, but to solidify financial stability when the next crisis presents itself. We hope that this guidebook serves as a foundation to help you and your organization thrive.

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