A Field in Flux: Reaching for Sustainability

A Nantucket Focus on NFF’s 2015 State of the Sector Survey

Local data collection, analysis, and presentation made possible by Community Foundation for Nantucket & Tower Foundation

NFF also thanks the Bank of America Charitable Foundation for generously supporting the Survey since 2010:
Agenda

- **Introductions**

- Articulating Community Need

- The Realities of Day-to-Day Nonprofit Management

- Responding to Opportunities and Challenges

- Wrap-up
Overview: Nonprofit Finance Fund® (NFF)

NFF, a nonprofit 501(c)(3), has served thousands of nonprofits and funders since 1980. Our impact:

- Over $250 million in loans, $30 million in re-grants and $1.4 billion in leveraged capital
- Over 1000 customized financial consultations
- Hundreds of partnerships and publications advancing financial awareness and friendlier funding practices for all nonprofits

NFF: “...arguably the most influential voice in the ongoing effort to reshape thinking and practice about nonprofit capitalization.”

-The Nonprofit Times

Serving the nation from several local offices

- Northeast: Boston and New York City
- Mid-Atlantic: Philadelphia
- West Coast: San Francisco and Los Angeles
Your Story

- Introduce yourself to the people at your table
- What brought you to today’s session?
National Respondent Profile

5,451 Respondents

Highlights

- All fifty states, Washington, D.C., and Puerto Rico
- Human services organizations and arts, culture, and humanities nonprofits most highly represented
- 67% exclusively or primarily served low-income communities
- Half identified as “lifeline” organizations
Thirty-Four Unique Nantucket Survey Respondents

Respondents by Sub-Sector

- Education, 12%
- Arts, Culture, and Humanities, 24%
- Health, 9%
- Environment and Animals, 9%
- House of Worship, 6%
- Foundation, 3%
- Public, Societal Benefit, 3%
- Youth Development (e.g., after school programs), 6%
- Other, 3%
- Human Services, 26%

Respondents by Budget Size

- $0 - 50K: 9%
- $50 - 100K: 3%
- $100 - 250K: 24%
- $250 - 500K: 26%
- $500K - 1M: 15%
- $1 - 2M: 18%
- $2 - 5M: 3%
- >$20M: 3%

FY2014 Operating Expense

Most do not identify as serving low-income-communities: 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

- Exclusively serves LIC
- Primarily serves LIC
- Neither of the above

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A Comparative Profile of Respondents

**Budget Size:** National, Mass, Nantucket

- National: 100% <$500K, 0% $500K - $1M, 0% $1M+
- Massachusetts (MA): 40% <$500K, 20% $500K - $1M, 40% $1M+
- Nantucket: 80% <$500K, 20% $500K - $1M, 0% $1M+

**Low-Income Communities:** National, Mass, Nantucket

- National: 40% Exclusively serves LIC, 60% Neither of the above
- Massachusetts (MA): 60% Exclusively serves LIC, 40% Neither of the above
- Nantucket: 80% Exclusively serves LIC, 20% Neither of the above
Overview of Results

- 67% reported increase in demand
- 64% realized a surplus in 2014
- 83% have at least 3 months of cash on hand

Top challenges:
- long-term sustainability
- offering competitive salaries to attract and retain talent
- raising funds that cover full costs

Funder dialogue appears to be somewhat better than national average
Agenda

- Introductions
- **Articulating Community Need**
- The Realities of Day-to-Day Nonprofit Management
- Responding to Opportunities and Challenges
- Wrap-up
In 2014, Demand for Services...

- Increased: 67%
- Stayed the same: 33%
- Decreased: 0%
### National Results: Demand for Services Over Time

#### Demand for Services (2008-2014)

<table>
<thead>
<tr>
<th>Year</th>
<th>Increased</th>
<th>Stayed the same</th>
<th>Decreased</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>76%</td>
<td>21%</td>
<td>4%</td>
</tr>
<tr>
<td>2013</td>
<td>80%</td>
<td>18%</td>
<td>3%</td>
</tr>
<tr>
<td>2012</td>
<td>78%</td>
<td>18%</td>
<td>4%</td>
</tr>
<tr>
<td>2011</td>
<td>84%</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>2010</td>
<td>77%</td>
<td>16%</td>
<td>7%</td>
</tr>
<tr>
<td>2009</td>
<td>70%</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>2008</td>
<td>73%</td>
<td>21%</td>
<td>5%</td>
</tr>
</tbody>
</table>

#### % of Respondents Unable to Meet Demand (2009-2014)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>44%</td>
<td></td>
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<tr>
<td>2010</td>
<td></td>
<td>49%</td>
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<tr>
<td>2011</td>
<td></td>
<td></td>
<td>48%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td>52%</td>
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<td></td>
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<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>56%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>52%</td>
</tr>
</tbody>
</table>
Two-thirds of Nantucket Nonprofits were able to Meet the Demand for Services

Able to meet 2014 service demand?

Yes, 67%
No, 33%

But most expect demand to rise again this year...

In 2015, we anticipate service demand will...

- Will increase: 82%
- Will stay the same: 15%
- Will decrease: 3%
Needs are Often Met via Personal Networks on the Island

When you cannot meet demand for services, how are client needs met?

- Their needs remain unmet: 64%
- They seek assistance from personal networks (family, friends, etc.): 36%
- They seek similar services from another organization: 18%
- Don’t know: 18%
- They access direct government assistance through government programs that are not outsourced to nonprofits: 0%
Nantucket Community Need: Affordable Housing, Mental Health, and Substance Abuse Services

Most critical community needs identified by NPOs

- Affordable housing: 65%
- Mental health services: 35%
- Substance abuse services: 29%
- Youth development programs: 24%
- Access to cultural opportunities: 18%
- Job availability: 18%
- Access to healthcare: 15%
- Other: 15%
- Access to healthy foods: 9%
- Strong, well-performing schools: 9%
- Job training: 6%
- Recreational opportunities: 6%
- Senior care: 6%
- Availability of public transportation: 3%
Your Story

- What do you believe to be the key community needs for the island?

- How have you seen community needs change over time?

- Are there key community issues that are going unmet? What can nonprofits do to address these issues?
Agenda

- Introductions
- Articulating Community Need
- The Realities of Day-to-Day Nonprofit Management
- Responding to Opportunities and Challenges
- Wrap-up
“Rules” of FOR-PROFIT Finance

In the for-profit world,

- Customer buys the product

- Price includes the full cost of doing business

- Overhead and profits are seen as necessary and regular part of the business

12-ounce latte = $3.00

Source: Matt Milletto, Vice President of the American Barista & Coffee School
“Rules” of NONPROFIT Finance

- Nonprofits exist for a reason:
  - Rarely an obvious commercial return
  - Quality considerations make economies of scale elusive

- Client often does not pay or pays partially for the product (e.g., homeless do not pay per night for shelter)

- Nonprofits rely on third parties (donors and funders) to subsidize the cost → required “dependency”

- Donors and funders want most of their contribution to go directly to the people served

- Overhead and profits are often seen as unnecessary and unrelated to achieving the mission
Five Components of Nonprofit Financial Health

1. **Profitability & Savings**: Are costs covered? Are surpluses sufficient to pay for debt principal and facility or equipment purchases? Is the nonprofit generating adequate savings?

2. **Revenue Dynamics**: Where does the nonprofit’s money come from? Are revenue streams relatively reliable or at risk?

3. **Expense Dynamics**: Does management understand the differences between direct, indirect and full costs? Does management adjust costs in response to revenue shortfalls?

4. **Health of Balance Sheet**: Are the size, nature and distribution of assets, net assets and liabilities appropriate to support the organization’s business and programs over the long term?

5. **Liquidity**: Is there enough cash available to cover current obligations? How quickly do receivables convert to cash? How liquid are the nonprofit’s net assets?
My Organization Ended FY ’14 With...

In 2014, more organizations ended the year with a surplus, and fewer ended with a deficit, compared to previous years. 29% reported break-even financials.
How did Nantucket Nonprofits do in 2014?

Financial results: FY 2014 vs. anticipated FY 2015

Ended FY'14 with...
- 15% Deficit
- 21% Break-even
- 64% Surplus
- 1% or less Unable to predict

Anticipate ending FY'15 with...
- 13% Deficit
- 40% Break-even
- 40% Surplus
- 7% Unable to predict

In FY 2014, how big was your surplus or deficit?

Deficit
- 20% 1% or less
- 20% 1.01%-5%
- 0% 5.01%-10%
- 60% 10.01%-25%
- 0% > 25%

Surplus
- 6% 1% or less
- 33% 1.01%-5%
- 33% 5.01%-10%
- 22% 10.01%-25%
- 6% > 25%
Nantucket Nonprofits are Better Positioned than most with Respect to Liquidity

- Nationally, 53% of nonprofits had three months or less of cash on hand
- 12% of nonprofits had less than one month of cash on hand

How many months of cash are in reserves?

- Less than 1 month: 3%
- 1 month: 3%
- 2 months: 10%
- 3 months: 17%
- 4 months: 0%
- 5 months: 3%
- 6 months: 14%
- More than 6 months: 48%
Capitalization Framework: Assessing and Articulating Need

Appropriate Capitalization Supports:

Liquidity

Does the organization have adequate cash to meet its operating needs?

Adaptability

Does the organization have flexible funds that allow for adjustments?

Durability

Does the organization have access to funds to address a variety of future needs?

Near term

Longer term
## Different Types of Capital Address Different Needs

<table>
<thead>
<tr>
<th>Capital</th>
<th>Function of each</th>
<th>Addresses:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working</td>
<td>Allows the organization to bridge revenue timing gaps</td>
<td>Liquidity</td>
</tr>
<tr>
<td>Risk &amp; Opportunity</td>
<td>Supports strategic artistic or business opportunities; absorbs unforeseen funding losses</td>
<td>Adaptability</td>
</tr>
<tr>
<td>Change/ Growth</td>
<td>Funds investments in infrastructure and capacity associated with changes in the business or program delivery model</td>
<td>Adaptability, Durability</td>
</tr>
<tr>
<td>Recovery</td>
<td>Allows an organization to address a historical mistake or chronically undercapitalized operations</td>
<td>Durability</td>
</tr>
<tr>
<td>Facilities &amp; Equipment</td>
<td>Supports acquisitions or upgrades, or can be used to accumulate reserves to meet future facility and equipment needs</td>
<td>Durability</td>
</tr>
<tr>
<td>Investment (board designated)</td>
<td>Provides ongoing operating funds through investment income</td>
<td>Durability</td>
</tr>
</tbody>
</table>
## So...How Much?

<table>
<thead>
<tr>
<th>Reserve Type</th>
<th>Tips to determine appropriate size</th>
</tr>
</thead>
</table>
| **Working Capital**        | - Based on month to month cash flow needs.  
- What is the greatest cash need during the year?                                                                                                                                                                                    |
| (Internal line-of-credit)  |                                                                                                                                                                                                                                    |
| **Risk & Opportunity**    | - Assess what basic operating risks exist. *For example: What happens if a major funder leaves?*   
- Consider costs of innovating an existing program. *For example: What would it take to staff up a program or upgrade technologies?*                                                                                             |
| **Program/Growth**         | - Draft a detailed growth plan which considers both one-time and recurring costs associated with program investment or growth.                                                                                                          |
| **Investment**             | - Identify goals for investment returns. *For example: What percent of annual operating expenses should returns on the reserve cover?*                                                                                                    
- Estimate magnitude of investments necessary to generate expected return.                                                                                                                                                            |
| **Facility**               | - Costs of fixed assets can be more easily identified  
- Substantial or aging facilities may require an engineering analysis of future maintenance and replacement needs.                                                                                                               |
Top Nantucket Challenges: Achieving Long-Term Sustainability, Covering Full Costs, and Offering Competitive Wages

Top challenges that nonprofits are facing

- Achieving long-term financial sustainability: 38%
- Ability to offer competitive staff pay and/or retain staff: 35%
- Raising funding that covers full costs: 32%
- Engaging and mobilizing volunteers: 24%
- Meeting community demand for services or programs: 21%
- Marketing, outreach, and community engagement: 18%
- Adapting to changing community demographics: 15%
- Developing cash reserves: 12%
- Measuring impact: 12%
- Increases in unavoidable costs (e.g., rent): 12%
- Having regular, reliable cash flow: 9%
- Not enough support from board: 9%
- Not enough staff: 9%
- Insufficient revenue: 6%
- Managing a facility or fixed asset: 6%
- Managing or pursuing growth: 6%
- Raising unrestricted revenue/GOS: 3%
- IT concerns: 3%
- Adapting to changes due to the Affordable Care Act: 3%
- Environmental health hazards and risks: 3%
An Organization’s Full Cost of Doing Business

Debt Principal

Capital Additions

Depreciation

Savings

Reserves

Operating Expenses

Organization’s full cost
How Often do Funders Cover the Full Costs of Nantucket Programs?

How often do funders cover the full costs of programs they intend to support?*

- **Local gov't**
  - Never: 47%
  - Rarely: 7%
  - Sometimes: 20%
  - Often: 13%
  - Always: 13%

- **State gov't**
  - Never: 57%
  - Rarely: 14%
  - Sometimes: 7%
  - Often: 21%
  - Always: 0%

- **Federal gov't**
  - Never: 83%
  - Rarely: 8%
  - Sometimes: 8%
  - Often: 0%
  - Always: 0%

- **Foundations**
  - Never: 16%
  - Rarely: 16%
  - Sometimes: 52%
  - Often: 8%
  - Always: 8%

- **Individuals**
  - Never: 11%
  - Rarely: 19%
  - Sometimes: 30%
  - Often: 26%
  - Always: 15%
Measuring Outputs and Outcomes on Nantucket

Impact measurement practices: my organization…

- Has a theory of change or logic model: 24% Yes, 52% No, 24% Don’t know
- Collects output data: measures of program productivity, such as # of clients or size of audience: 20% Yes, 77% No, 3% Don’t know
- Collects outcomes data: measures of how our services improve the lives of our clients or audience members: 31% Yes, 55% No, 3% Don’t know
- Has staff dedicated or partially dedicated to collecting and analyzing outputs and outcomes data: 31% Yes, 66% No, 3% Don’t know
- Uses outputs and outcomes data to inform strategic and programmatic decision-making: 38% Yes, 59% No, 3% Don’t know
# Outcomes Measurement: Basic Definitions

<table>
<thead>
<tr>
<th><strong>Theory of Change</strong></th>
<th>Shows the links between a defined ‘target’ population, an organization’s activities, and the expected outcomes. (i.e., written cause-and-effect statements)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inputs</strong></td>
<td>The resources—money, time, staff, expertise, methods, and facilities—that an organization commits to a program</td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td>The volume of a program’s actions, such as, number of people served or activities carried out</td>
</tr>
<tr>
<td><strong>Outcomes</strong></td>
<td>Meaningful changes for those served by a program, generally defined as changes in knowledge, skills, attitudes, behavior, condition, or status</td>
</tr>
<tr>
<td><strong>Indicators</strong></td>
<td>Specific, observable, and measurable characteristics, actions, or conditions that demonstrate whether a desired change has happened toward the intended outcome</td>
</tr>
<tr>
<td><strong>Impact</strong></td>
<td>The results that can be directly attributed to the outcomes of a given program factoring out other explanations</td>
</tr>
</tbody>
</table>

*Adapted From: Leap of Reason, Mario Morino*
Where is your Organization on the Outcomes Measurement Continuum?

- Developed Theory of Change
- Selected Meaningful Indicators
- Collecting Data Regularly
- Established Outcome Targets
- Reviewing Reports Regularly
- Using Data to Attract Outcomes-Based Investments
What Does Funder Demand for Outcomes Look Like?

Impact measurement practices: Estimated portion of funders that....

- None
- Less than half
- Half or more
- All

Ask us to include output or outcomes data in our reports to them
- 26%
- 26%
- 33%
- 15%

Ask for output or outcomes data to assess the effectiveness of our programs
- 26%
- 30%
- 33%
- 11%

Provide funding that is contingent on our organization achieving specific outputs
- 56%
- 30%
- 11%
- 4%

Provide funding that is contingent on our organization achieving specific outcomes
- 52%
- 30%
- 15%
- 4%
An Open Nonprofit – Funder Dialogue Varies by Topic

My org can have open dialogue with funders about:

- Expanding programs: 56%
- General operating support: 44%
- Multi-year funding: 32%
- Acquiring or renovating a facility: 29%
- Working capital (cash flow needs): 18%
- Developing reserves for operating needs (money for a rainy day): 15%
- Developing reserves for long-term facility or fixed asset needs: 12%
- Organizational change or adaptation: 12%
- Flexible capital for organizational change/growth: 9%
- I do not feel that my funders are willing to engage in open dialogue about these topics: 9%
- Other financial or operational issues: 9%
- Measuring program outcomes: 6%
- Paying off loans: 3%
Day-to-Day Nonprofit Management for Nantucket Nonprofits

Key Strengths:

- Generally able to meet community demand in 2014
- Relatively better financial condition
- Prioritizing planning for the future
- More open dialogue with funders

Watch List:

- Community demand expected to rise in 2015
- Breaking even is not enough
- Covering full costs of programs still a struggle
- Potential lag in national trend for funder demand for data and outcomes
- Attracting and retaining human capital
Your Story

- What are the major factors driving your organization’s day-to-day opportunities and challenges?
  - Community needs
  - Financial performance
  - Outcomes measurement
  - Human capital
  - Other?

- What is needed to help you manage these issues and advance your mission?
Introductions

Articulating Community Need

The Realities of Day-to-Day Nonprofit Management

Responding to Opportunities and Challenges

Wrap-up
2014 Actions Taken: Programs and Services

Program & Service-related actions taken in last 12 mos.

- Collaborate with another organization to improve or increase programs or services offered: 62%
- Add or expand programs or services: 53%
- Increase the number of people served or audience reached: 41%
- Upgrade hardware or software (computers, IT systems, applications) to improve service or program delivery: 29%
- Expand geographies served: 15%
- Increase amount of service per client or programs per visitor/audience member: 15%
- Employ an integrated approach to holistically address client needs: 15%
- Use, purchase, or upgrade software specifically to capture data on program impact: 9%
- Reduce or eliminate programs or services: 6%
- Decrease amount of service per client or programs per visitor/audience member: 6%
- Decrease the number of people served or audience reached: 3%
- None of the above: 3%
Growth: What Voices Do We Hear?

**What is the impact we are seeking?**

If we grow we can have a national footprint

**What is the mission fit? Are we chasing $$$ or a real opportunity?**

We need to reach a broader audience

**Our unique needs require a dedicated space**

**Will this growth enhance our fundraising capacity?**

Can we afford NOT to do this?

**We could be the biggest theater in town**

**What are the real costs of this project?**

What are the hidden costs of growth?
Are We Ready to Grow?

There are five high-level questions that NFF typically asks to understand whether an organization is financially ready to enter into a growth phase:

1. Has the organization generated an unrestricted operating surplus in most of the past 4-5 years?

2. Has the organization grown significantly over the past 4-5 years? If so, have personnel costs kept pace with growth in expenses?

3. Is the organization adequately capitalized to effectively run and maintain current programming?

4. Does the documented strategy/growth plan include a data-based financial plan?

5. Are revenue targets (for both one-time and recurring needs) realistic for your organization’s capacity?
Operations & Finance actions **taken** or **planned** in last / next 12 months

- Pursue funding that requires you to measure and achieve outcomes: 38% (taken), 32% (planned)
- Conduct long-term strategic or financial planning: 26% (taken), 38% (planned)
- Receive funding that requires you to measure and achieve outcomes: 24% (taken), 26% (planned)
- Change the main ways in which you raise and spend money: 35% (taken), 24% (planned)
- Renovate a facility you lease or own: 32% (taken), 24% (planned)
- Add to reserve funds: 21% (taken), 21% (planned)
- Advocate to government on behalf of your organization’s cause: 18% (taken), 18% (planned)
- Upgrade hardware or software (computers, IT systems, applications) to improve organizational efficiency: 21% (taken), 18% (planned)
- Launch a capital campaign: 15% (taken), 6% (planned)
- Use outside help to improve financial knowledge or capacity: 16% (taken), 12% (planned)
- Use reserve funds: 9% (taken), 9% (planned)
- Undergo organizational restructuring: 9% (taken), 9% (planned)
- Collaborate with another organization to reduce administrative expenses: 6% (taken), 6% (planned)
- Seek funding other than grants and contracts, such as loans or other investments: 6% (taken), 12% (planned)
- Purchase a facility: 3% (taken), 6% (planned)
- Merge with another organization: 0% (taken), 3% (planned)
- Lease a facility: 3% (taken), 3% (planned)
- Sell a facility: 3% (taken), 3% (planned)
- Pursue an earned revenue venture: 0% (taken), 6% (planned)
2014 Actions Taken: Staff

Staff related actions **taken or planned** in last/next 12 months

- Make replacement hires: 47%
- Hire staff for new positions: 32%
- Invest money or time in professional development for staff: 29%
- Give "cost of living adjustment" (CCLA) salary increases to staff: 32%
- Give raises beyond cost of living adjustment (COLA): 29%
- Retain all existing personnel: 26%
- Rely more on volunteers: 24%
- Leadership succession planning: 23%
- Spend more on staff benefits (e.g., health benefits): 23%
- Engage more closely with your board through more frequent reports and meetings: 21%
- Freeze or reduce salaries: 21%
- Reduce staff hours (short weeks, furloughs, etc.): 18%
- None of the above: 12%
- Reduce staff: 9%
- Spend less on staff benefits (e.g., health benefits): 9%
- Freeze all replacement hires: 3%

- **taken last 12 mos**
- **planned next 12 mos**
Your Story

What actions taken in 2014 did your organization learn the most from?

How will you apply those lessons to your plans for 2015 and beyond?
Agenda

- Introductions
- Articulating Community Need
- The Realities of Day-to-Day Nonprofit Management
- Responding to Opportunities and Challenges
- Wrap-up
Nonprofits can ask the following questions to support long-term financial stability:

- Do we ask for funding that covers full costs?
- Can we budget to build surpluses?
- Can collaboration improve our programs or impact or increase our operational efficiency?
- Do we have the operational and financial adaptability to enter into the growth or change that we are pursuing?
- Can we influence policy to improve our funding environment and how resources flow to our communities?
Conclusion: Strategic Advice for Funders

- Funders can ask the following questions to help nonprofits thrive:
  - Do we understand the impact that our funding will have on the program and organization as a whole? Do we fund the necessary and full costs?
  - What resources in addition to grant dollars do our grantees need to build long-term adaptability?
  - Does our grantmaking enable our grantees to offer competitive wages that allow them attract and retain the best talent?
  - Are we building strong relationships with our grantees that foster transparent dialogue?
Learn More

- **Survey Menu:** nff.org/survey

- **2015 Survey Analyzer:** survey.nff.org

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