THE SUSTAINABILITY MINDSET

A NEW APPROACH TO BOARD LEADERSHIP
David Greco is a nationally recognized speaker, author, consultant and creator of the innovative Think Money First! nonprofit capacity building program. He regularly presents at national conferences such as BoardSource, Grantmakers for Effective Organizations, Independent Sector, Social Enterprise Alliance, Association of Corporate Contribution Professionals, and Exponent Philanthropy as well as numerous local and regional conferences.

He has trained more than 1,000 social sector leaders on financial sustainability through the Annenberg Alchemy program, Scaling What Work workshops with Grantmakers for Effective Organizations and through his work with the Nonprofit Finance Fund.

In 2013, David founded Social Sector Partners to provide training and development to funders and nonprofit organizations to develop a culture of sustainability that incorporates real cost, sustainable business and revenue models, and a focus on impact.

Twitter: @DavidRGreco
CONSEQUENCES

TEXAS COUNCIL ON DOMESTIC VIOLENCE

UNMET REQUESTS

WOMEN KILLED BY A MALE INTIMATE PARTNER

<table>
<thead>
<tr>
<th>Year</th>
<th>Unmet Requests</th>
<th>Femicides</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>523</td>
<td>142</td>
</tr>
<tr>
<td>2011</td>
<td>1,212</td>
<td>102</td>
</tr>
<tr>
<td>2012</td>
<td>998</td>
<td>114</td>
</tr>
<tr>
<td>2013</td>
<td>1,311</td>
<td>119</td>
</tr>
<tr>
<td>2014</td>
<td>1,516</td>
<td>132</td>
</tr>
<tr>
<td>2015</td>
<td>1,539</td>
<td>158</td>
</tr>
</tbody>
</table>
WHY?

A culture of scarcity has plagued the sector for decades:

- Nonprofits are afraid of losing funding,
- Program officers are afraid of looking foolish,
- Donors are afraid of wasting their money,
- Boards are afraid of being seen as ineffective.

So, they all cling to a set of practices and myths that are supposed to demonstrate effectiveness but in reality, result in less funding, wasted money, fewer people being served, and a weakened social sector.
SUSTAINABILITY & IMPACT REQUIRES A NEW APPROACH

CHANGE YOUR THINKING
→ Scarcity to *Sustainability Mindset*

CHANGE YOUR ORGANIZATION
→ *Starvation Cycle* to *Adaptive Capacity*

CHANGE THE WORLD
→ *Inability to Meet Demand* to *Impact*
THE WORLD HAS CHANGED...HAVE YOU?
“The world has changed, and so must we. It’s time for a new approach.”

- Clara Miller, President, F.B. Heron Foundation
THE TIMES THEY ARE A CHANGIN’

facebook

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SOCIAL CAPITAL MARKETS
AT THE INTERSECTION OF MONEY AND MEANING

THE OVERHEAD MYTH
MOVING TOWARD AN OVERHEAD SOLUTION

Collective Impact
5 conditions

BoardSource
Empowering Boards. Inspiring Leadership.
ARE YOU STUCK IN THE PAST?
ARE YOU STUCK IN THE PAST?

- If your nonprofit business model is still based in a world with Blockbuster Video and Nokia 1100 phones, how will you remain relevant?

- If your programmatic strategy was developed in a world before Twitter, Impact Investing, Social Impact Bonds, and Citizen’s United, how will you realize the change you want to see in the world?
THE PAST: CHARITY MINDSET

What do you think of when you hear the word “CHARITY”? 
“The charity mindset assumes that a nonprofit starts from the position of need, inadequacy, and burden, rather than a position of opportunity, strength, and effectiveness.”

- Nell Edgington, President, Social Velocity
THE SCARCITY (CHARITY) MINDSET

- Focused on meeting current individual human needs or to alleviate current human suffering.
- Values Altruism and Volunteerism – Good Deeds
- Relies very heavily on sweat equity
- Apologizes for the burden of asking someone for money.
- Charities spend every last penny on the program and leave little money for building the organization.
THE CONSEQUENCES

- Program-focused Fundraising
- Funding Does Not Cover Full Cost
- Inability to Meet Demand
- Chasing Money
- Distraction & Fragmentation
- Limited Capacity
- Lack of Liquidity

REACTIONARY
A NEW APPROACH
THE SUSTAINABILITY MINDSET

▪ Focused on solutions and systems change.

▪ Offers investment opportunities to prospects.

▪ Understand that it takes organizations, infrastructure, systems, and talent to effectively execute on a solution to a social problem.

▪ Behave as equal partners with funders in creating solutions.

▪ Recognize the full costs of their work, are open and honest with funders about those costs, and demand that funders understand and support full costs.
Own your Numbers

Don’t Apologize!

Understand both your revenue and investment needs

Share the full cost with the whole board and your funders!

Articulate your financial story: Focus on communicating the impact of your organization’s activities

I WANT YOU TO END THE DOOM LOOP
OWNING YOUR NUMBERS:
UNDERSTANDING FULL COST

REVENUE NEEDS
- Maintain Programs and Services
- Cover Management and Fundraising Expenses
- Keep the lights on!

INVESTMENT NEEDS (a.k.a. Capital)
- Liquidity
- New Revenue Models
- Scale or Growth
- Buildings & Equipment
- Reserves

ALL ENTERPRISES NEED BOTH REVENUE AND INVESTMENT TO THRIVE!
Like any corporation, nonprofits and social enterprises need to cover the fully loaded cost of doing business. Full costs include:

<table>
<thead>
<tr>
<th>Program Expenses</th>
<th>Operating Expenses</th>
<th>Liquidity</th>
<th>Fixed Assets</th>
<th>Growth</th>
<th>Reserves</th>
<th>Debt</th>
</tr>
</thead>
</table>

NONPROFITS NEED PROFITS
EXAMINING REVENUE NEEDS

What are the needs to maintain existing programs and operations?

- Are you considering growing or changing programs?

- Are you able to attract and retain staff?

- Are there any new laws or regulations that will impact operating expenses (i.e., increase in the minimum wage)?

- Are you including costs for maintain facilities, systems and infrastructure?
TOTAL REVENUE ≠ UNRESTRICTED REVENUE

Board members need to focus on **Unrestricted Revenue**. Budgets should include only unrestricted revenue (but track restricted revenue separately.)

![Diagram showing categories of revenue: Temporarily Restricted, Unrestricted, Permanently Restricted, Net Assets Released from Restrictions, Interest Income, and All Expenses.](image-url)
FULL COST: LIQUIDITY

Months of Cash ≠ Liquidity

Cash Includes:

UNRESTRICTED LIQUIDITY
(a.k.a. Liquid Unrestricted Net Assets (LUNA))
## FULL COST: LIQUIDITY

Change the World  
*Statements of Financial Position*  
December 31, 2015  
*With Summarized Financial Information as of December 31, 2014*

### Assets

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>297,389</td>
<td>274,139</td>
</tr>
<tr>
<td>Receivables</td>
<td>210,000</td>
<td>200,000</td>
</tr>
<tr>
<td>Prepaid Exp.</td>
<td>22,000</td>
<td>17,000</td>
</tr>
<tr>
<td>Other</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>P&amp;E (Net)</td>
<td>164,393</td>
<td>139,393</td>
</tr>
<tr>
<td>Long-term receivables</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>705,782</strong></td>
<td><strong>642,532</strong></td>
</tr>
</tbody>
</table>

### Liabilities

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables</td>
<td>140,054</td>
<td>29,578</td>
</tr>
<tr>
<td>Current Debt</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Long Term Debt</td>
<td>80,244</td>
<td>71,244</td>
</tr>
<tr>
<td>Other</td>
<td>78,500</td>
<td>51,300</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>398,798</strong></td>
<td><strong>252,122</strong></td>
</tr>
</tbody>
</table>

### Net Assets

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Unrestricted</td>
<td>214,417</td>
<td>61,573</td>
</tr>
<tr>
<td>Temp. Restricted</td>
<td>92,567</td>
<td>328,837</td>
</tr>
<tr>
<td>Perm. Restricted</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>306,984</strong></td>
<td><strong>390,410</strong></td>
</tr>
</tbody>
</table>

### Unrestricted Net Assets (Net Worth) is not just cash. It includes a number of different types of assets:

- **Fixed Assets**: Buildings, land, equipment, vans, computer systems, etc.
- **Receivables**: Money that is owed to the nonprofit from pledges or contracts.
- **Board Designated Reserves**: Operating reserves, contingency funds, program reserves, etc.
- **Liquid Net Assets (LUNA)**: Cash that is unrestricted and clear of any liabilities.
FULL COST: MEASURING LIQUIDITY

Months of Cash

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>CALCULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Months of Cash</td>
<td>Total Cash and Investments Average Monthly Expenses</td>
</tr>
</tbody>
</table>

Liquid Unrestricted Net Assets (LUNA)

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>CALCULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid Net Assets</td>
<td>Unrestricted Net Assets – (P&amp;E – Facility Related Debt) Average Monthly Expenses</td>
</tr>
</tbody>
</table>

For more information on understanding LUNA:
“The Key to Long Term Financial Health: Liquid Unrestricted Net Assets (LUNA)” by Hilda Polanco, Fiscal Management Associates
What are the additional needs beyond existing programs and operating expenses?

- Investments in **staff and organizational capacity**: bringing staff salaries and benefits inline with market rates (attract and retain staff); new staff needs; or consultants.

- Investments in **infrastructure, systems, technology**: fundraising software, CRM databases, outcome and evaluation systems

- Investments in **new revenue or business models**: the fundraising business, earned revenue ventures, social enterprises, opening new sites or expanding into new markets.

- **Liquidity & reserve needs**: working capital, contingency reserves, facility reserves, or endowments
# The Full Cost: Putting It All Together

<table>
<thead>
<tr>
<th></th>
<th>2018 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Costs</strong></td>
<td></td>
</tr>
<tr>
<td>Existing Programs &amp; Services</td>
<td>$767,697</td>
</tr>
<tr>
<td>Existing Management, Fundraising and Operations</td>
<td>$137,868</td>
</tr>
<tr>
<td>New/Expanded Programs</td>
<td></td>
</tr>
<tr>
<td><strong>Revenue Needs</strong></td>
<td>$905,565</td>
</tr>
<tr>
<td><strong>Possible Investments</strong></td>
<td></td>
</tr>
<tr>
<td>Liquidity/Working Capital (3-6 months)</td>
<td>$75,464</td>
</tr>
<tr>
<td>New Staff &amp; Capacity Investments</td>
<td>$43,200</td>
</tr>
<tr>
<td>Infrastructure &amp; Systems</td>
<td>$14,500</td>
</tr>
<tr>
<td>Facilities Reserves</td>
<td>$22,500</td>
</tr>
<tr>
<td>Investment in Fundraising</td>
<td>$42,500</td>
</tr>
<tr>
<td>Contingency Reserves (Rainy Day Fund) or Endowment</td>
<td>$63,975</td>
</tr>
<tr>
<td><strong>Total Investment Needs</strong></td>
<td>$262,139</td>
</tr>
<tr>
<td><strong>The Full Cost</strong></td>
<td>$1,167,704</td>
</tr>
</tbody>
</table>

1 month of **operating** expenses
Increase staff salaries/benefits
Donor Perfect Database
Repair HVAC
Development Associate
1 month of **program** expenses
To make a compelling case for support nonprofit leaders (especially board members!) need to know the amounts and types of money the organization needs.
THE BOARD ROLE

Raise the Bar!

▪ Encourage the whole Board to understand the financial statements and key concepts
▪ Recruit and maintain a finance committee that is skilled, collaborative and willing to make and implement tough decisions

Focus on the Big Picture!

▪ Work with staff to develop meaningful internal financial reports
  ▪ Unrestricted operating performance
  ▪ Liquidity: Months of Cash v LUNA
  ▪ Compare budget to actuals
▪ Resist the temptation to dwell on small issues
CHANGING THE MINDSET
SHIFT: IT HAPPENS
CHANGING THE MINDSET

STOPPING COUNTERPRODUCTIVE ACTIVITIES AND BEHAVIORS

1. What can you do to make sure that you achieve the worst result imaginable with respect to achieving financial sustainability?

2. Is there anything that we are currently doing that in any way, shape, or form is on the list? Be brutally honest!

3. What first steps will help us stop what we know creates undesirable results?

Adapted from Liberating Structure’s Making Space with TRIZ
ABOUT SOCIAL SECTOR PARTNERS

Social Sector Partners provides a range of training and workshops for both nonprofit leaders and funders to help build the capacity, financial sustainability and impact of community based organizations.

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Twitter: @DavidRGreco

Web: www.socialsectorpartners.com

Think Money First! is an innovative training program to help social sector leaders create a culture of sustainability for their organizations. Learn more at: www.thinkmoneyfirst.org