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Back to the Future: Long Term Planning and Investment Strategies

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What is Risk?

- “Uncertainty is therefore transformed into risk when it becomes an object of management, regardless of the extent of information about probability.”
 - Michael Power, *Organized Uncertainty: Designing a World of Risk Management*



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What is risk management?

- “...a discipline for dealing with uncertainty.”
- Can we really "manage risk?"
- “I suspect the best we can do is manage ourselves and our organizations using risk measures as imperfect guides.” - H. Felix Kloman



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To Plan for Today is Human

- There are many motivations to focus planning on the short term. These motivations include:
 - The “crisis management cycle”
 - The speed with which “things” change
 - Past experience with forecasting and strategic planning

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Optimism Bias

David Ropeik:

- “colors our views of how things will turn out further down the road”
- “without the ability to see whether the future will actually be ours, the statistics suggest that we need clearer lenses”

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Poll Question

- In your view, which of the following is the most compelling benefit of long-term planning?
 1. It provides a structure and the discipline to think about tomorrow, today
 2. It may help us forecast events that could derail our mission
 3. It inspires confidence in stakeholders

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Budgeting Recap

- A shared, strategic vision of the future is the starting point for sound budgeting.
 - Challenges, opportunities, strengths and weakness



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Budgeting Recap

- Getting on the same page is essential:
 - The nonprofit's financial goals (e.g., building a reserve fund, increasing funds in an endowment, operating key programs on a break even basis, etc.)

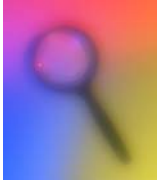


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Budgeting and Forecasting Go Hand in Hand

- Forecasting is essential to effective and accurate budgeting
- Reviewing budget outcomes is part of forecasting




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Ensure Accurate Forecasting

- Helpful forecasts consider:
 - Historical results
 - Anticipated changes in the organization's environment, activities and strategies



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Financial Planning Basics

- An external scan (for opportunities and threats) is essential to effective long-term financial planning:
 - Are there TRENDS with which we should be more familiar?
 - What trends have we observed? What trends SHOULD WE be tracking?
 - Have we examined goals and results, and goals VERSUS results on a multi-year basis?
 - Is GROWTH a goal? What are the most compelling opportunities for growth?
 - What THREATS to growth and other goals can we envision?

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Long-Term Goals

- Financial independence
"Begging for Change," by Robert Egger

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Long-Term Goals

- **Sustainability**

"A sustainable future will mean different things for different organizations, but at its heart, it means planning for the long-term. This could mean managing or reducing debt, building a cash reserve, changing your mix of income sources, or improving your infrastructure..."

 - Source: www.nonprofitsassistancefund.org

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Long-Term Goals

- **Cash Reserves** – Kate Barr, Nonprofits Assistance Fund, www.nonprofitsassistancefund.org
 - "The "right" target for reserves needs to be customized for each nonprofit based on their operating structure, cash flow, and ability to generate surpluses in the operating budget."
 - "Building reserves requires an intentional budget strategy and follow through to generate surplus funds. Whatever the target amount, reserves are most useful if there is clear agreement about their purpose and use codified in a written policy."

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Forecasting Missteps

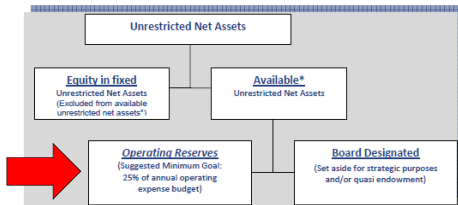
- Failing to forecast
- Fear of forecasting
- Sole proprietor forecasting
 - Who should be involved?!

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Resources

- Nonprofits Assistance Fund has developed [Nonprofit operating reserves policy guidelines and examples](#).
- If you are interested in a deeper dive on the issues, considerations, and structure for reserves, you'll love the [Nonprofit Operating Reserves Initiative Workgroup White Paper](#). They answer the "how much" question with a useful chart that sorts through the "it depends" factors.

Figure 1 – Suggested balance sheet net asset terms presented in an illustration that all nonprofit CEOs and boards need to understand.



* Available unrestricted net assets could also include the equity in other non-current, non-liquid net assets such as long-term receivables, inventory, prepaid expenses and deposits held by others.

Source: www.nonprofitsassistancefund.org

Operating Reserves

- ...that portion of "available unrestricted net assets" that an organization's board maintains and/or has formally designated, or "reserved" for use in emergencies to sustain financial operations in the unanticipated event of significant unbudgeted increases in operating expenses and/or losses in operating revenues. The adequacy of operating reserves beyond the minimum is variable and depends on factors such as the reliability of operating revenues, impact of economic conditions among others.

Source: www.nonprofitsassistancefund.org

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Investment Policy

- Suited to your circumstances
- Arguably needed in every nonprofit
- “Unrestricted working capital” -
 - Essential to financial integrity, if not viability
- A plan to develop a reserve – over several fiscal periods... is key

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Investment Policies

- **Designation of authority** to make investment decisions
 - Possibilities include: finance committee, full board, or investment committee
- Provisions governing the management of operating versus endowment funds

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Investment Policies

- **Goals for the rate of return and preservation of spending power** of each type (operating and endowment) of investment.
- Investment goals differ...

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Investment Policies

- Provision concerning **liquidity** (availability) of funds.
 - Operating fund: more liquid, available for short term use
 - **Types of accounts** in which each type of funds is held (e.g., checking, savings, brokerage, etc.)

Investment Policies

- The **diversity of investment types** for each type of funds, e.g., stocks, real estate, etc.
- Guidelines for the maximum percentage that could be invested in any particular type of investment... to ensure adequate diversification

Investment Policies

- **How portfolio manager is selected... reporting requirements** to be followed to ensure that leadership of nonprofit is kept apprised of the status of investments.
- **Warning:** delegation danger

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Investment Policies

- **Frequency with which the investment policies will be reviewed and adjusted to address changed circumstances.**

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Investment Policies

- **Prohibited investments** – either by type of investment, rating of investment, or reflecting a particular social philosophy (e.g., no investment in tobacco and alcohol company stocks)

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"Cash is Cash...Sometimes"

- **"Beyond verifying an accurate number, though, it's important to have a solid grasp of all the strings and restrictions that might hinder your ability to use that cash when you need it.** Some restrictions are external, such as temporarily restricted grants. Other strings on cash result from internal decisions related to investment decisions, reserve policies, or overly-complex designations and conditions."
 - *Kate Barr, Nonprofits Assistance Fund*

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RESOURCE

- Nonprofits Assistance Fund has created a quick cash analysis resource to help nonprofits easily distinguish cash that's liquid and available from other types of restricted, designated, or hard-to-access funds. You can download the [Cash and Investment Analysis worksheet](#) at www.nonprofitsassistancefund.org

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What is Financial Health?

- Financial resources are directed to mission fulfillment
- Income is available to support key programs / sources of income are stable
- Nonprofit is flexible – able/willing to try new things and adapt to change
- There is appropriate investment in facilities, technology and staff
- The nonprofit has sufficient cash to pay its bills
- The nonprofit is a good steward of all funds
- Every board member is knowledgeable about the above!

Source: www.nonprofitsassistancefund.org

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Recap

- Failing to forecast puts your nonprofit at great risk
- Effective forecasting should be an inclusive process
 - **Involve the board!**
- Question assumptions!
- Look far and wide

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Recap...

- Remember that updating your investment policy(ies) is key to good financial health
- Prudent financial risk management requires that decisions about managing cash are not ad hoc but made with care and in the context of policies that suit the circumstances of the nonprofit

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My Reading List...

- **How Risky Is It, Really? Why Our Fears Don't Always Match the Facts**, by David Ropeik
- **Why We Make Mistakes: How We Look Without Seeing, Forget Things in Seconds, and Are All Pretty Sure We Are Way Above Average**, by Joseph T. Hallinan
- **Stumbling on Happiness**, by Daniel Gilbert
- **Struck by Lightning: the curious world of probabilities**, by Jeffrey S. Rosenthal

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New from the Center

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My Financial Management Plan

FAQs Learn More Register Subscribe Login

Welcome!

Welcome to *My Financial Management Plan*, the online tool that helps you create a customized financial management plan for your nonprofit.

If you want to integrate your finance, accounting, budgeting and reporting policies and practices into a comprehensive plan, you've come to the right place. Using the easy-to-follow modules in *My Financial Management Plan*, you will create, update and/or upgrade your key policies; enhance accountability; improve communication between staff, board, funders and other stakeholders; and save time by streamlining your financial management.

My Financial Management Plan is brought to you by the **Nonprofit Risk Management Center**, an organization committed to helping nonprofits make a difference while managing resources effectively.

To begin, click "Login" above. If you're new to this site, click "Subscribe." You may also sign up to receive periodic emails and announcements from *My Financial Management Plan* by clicking "Register."

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My Plan

There are two sections below that will allow you to build and manage the financial management plan for your organization. Click on the heading to expand or contract the section content.

Plan Modules

Use this section to complete the questionnaires for each plan module. Your responses to the questionnaires will be the basis for creating your Financial Management Plan. Click the heading above to begin or to continue working with the modules. The modules to build your financial management plan are shown below. You may click on the link below the name of the module to access the module questionnaire. You can quickly determine your overall plan progress by the color of the module name and link. If the color is:

- **red** - you are ready to start.
- **blue** - you have answered some, but not all module questions.
- **green** - you have completed all module questions.

Get Started Complete/Review
 Board Fiduciary Responsibility Complete/Review
 Financial Literacy Complete/Review
 Managing Fraud Risk Resume

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Chart of Accounts Complete/Review	Cost Allocation Complete/Review
Joint Cost Issues Begin	Grants and Contributions Begin
Classifying Net Assets Begin	In-Kind Contributions and Expenses Begin
Individual Donations Begin	Budgeting Begin
Managing Cash Flow Begin	Financial Statements and Financial Reporting Begin
IRS and the Form 990, Part 1 Begin	IRS and the Form 990, Part 2 Begin
Government Money Begin	The Audit Process Begin
Return on Investment Analysis Begin	Investment Policies Begin

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