Webinar

Operating In a Changing World
Part 2

Facilitated by

Michael Kass, Consultant
Nonprofit Finance Fund

April 29, 2021
1 pm ET
Acknowledgment of Indigenous Territories

“Land acknowledgments are a stepping stone to honouring broken treaty relationships.”

• We invite you to acknowledge the Indigenous Territory you are joining us from:

https://native-land.ca/
Meeting Agreements

Contribute to a meaningful learning experience

▪ Every experience is valid; we are here as peers to learn from each other
▪ Invitation to share freely and candidly, and ask questions
▪ Take care of your needs first
Nonprofit Finance Fund

We are on a mission to support community-centered organizations led by and serving people of color, helping them access the investment capital and financial knowledge they need to realize their aspirations.
The Rising Together Initiative
NFF is partnering with…

Goal: Position community organizations to sustain and adapt your impact

• Better understand financial dynamics of the current operations as well as growth and change
• Identify, prioritize, and quantify financial needs
• Build capacity for strengthened financial management, resilience and data informed decision making

*The Rising Together Initiative is funded by Morgan Stanley*
NFF Team for Part 1 – Webinar Series (Sessions 1 – 6)
Learning Goals

Explore the impact the pandemic has had on the Not-for-profit sector.

Deepen our understanding of 'capital structure' and how it impacts our organizations' futures.

Learn how to assess our organizations' financial health and align decisions with real-time data.
Opening Space for Humanity

Conversations about Financial Management do not take place in a vacuum

- **The Past Year Has Taken a Toll**
- **There is No Precedent**
- **There is No Right Way to Feel or React**
- **There IS an Invitation to Slow Down**
NFF 2020 Survey: How has the COVID-19 pandemic affected your organization?

What we heard:

- Reduced Govt., Private, and Earned Funding
- Challenges with Staff and Volunteer Availability
- Unable to provide essential services
- Significant changes in demand
- Destabilizing Conditions
- Cancelled revenue-generating programing

1/3 NPOs had less than one (1) month of cash before the crisis
2/3 of NPOs indicated they were facing crisis just weeks into this

For more information visit: https://nff.org/covid-19-survey-results
Financial Decisions Follow Mission, Values and Priorities

VISION:
Aspirations and goals for tomorrow

MISSION:
Core purpose

VALUES:
Core beliefs to guide decisions

PRIORITIES & FINANCIAL DECISIONS
Assessing Your Strengths

It’s important to understand the full set of strengths and resources we bring into a situation:

- **Relationships & Reputation** – our partnerships, networks and reputation, and access to community resources

- **People & Skills** – the skills, expertise, experiences of staff, board and volunteers

- **Data & Know How** – how we know what we do works, how we understand our mission impact

- **Financial** – the alignment of financial resources to pay for what we do - delivering and supporting the mission in the immediate and longer term
Surpluses Support Mission Success

Consistent Surpluses

Balance Sheet

One-time Investments

Business Model

Reinvestment into the Business Model

Are you able to cover your costs?

Do you have access to enough cash?
What Does Capital Structure Look Like?

- **Capitalization** = alignment of balance sheet resources with short-term & long-term mission and impact goals
- **Balance sheet needs** = items beyond the income statement

Under-Capitalized  Mis-Capitalized  Well-Capitalized
Capital Structure in a Perfect World
If you have a magic wand

- Paying bills and managing cash flows is a breeze
- You’re not worried about equipment breaking; you can easily make repairs or replacements
- You’ve got a plan for any debt
- You’re excited by new opportunities, not burdened
- A strong safety net protects from the unexpected and risks inherent in your revenues or programs

An organization’s ability to **mitigate risk** is influenced by the resources it has on hand.

If an organization has...

- Plenty of unrestricted cash and receivables
- A fully available line of credit
- Sufficient reserves available to management
- Little to no wear-and-tear of fixed assets
- Reoccurring surpluses

...then it has **high** capacity for risk or change.

**What are your organization’s main risks?**
## Financial Pulse Check: Three Measures of Financial Health

<table>
<thead>
<tr>
<th>Indicators</th>
<th>What It Shows</th>
<th>Where to Find It</th>
<th>How to Calculate</th>
</tr>
</thead>
</table>
| **1. OPERATING SURPLUS/DEFICIT**  
*Business Model Performance* | Your ability to **cover operating expenses with revenue** from your core business model.  
*Reflects the business model’s strength* | **Income Statement**  
Audit, IRS Filing, internal statements, budgets | **Operating Revenue – Operating Expenses** |
| **2. MONTHS OF CASH**  
*Liquidity* | How long you can **cover short term obligations and day-to-day expenses.**  
*Best measure of solvency* | **Balance Sheet**  
P&L (for expenses)  
Audit, IRS 990 Filing, Internal Financials, Bank Statements | **Total Cash**  
(Total Expenses / 12) |
| **3. MONTHS OF AVAILABLE NET ASSETS (ANA)**  
*Availability* | How much of net assets is truly **available for use** (less restricted cash and outstanding obligations).  
*Better measure of accessible resources* | **Balance Sheet**  
P&L (for expenses)  
Audit, IRS 990 Filing, internal Financials | **Total Net Assets Without Restrictions – (Equity in P&E)**  
(Total Expenses / 12) |
Sample Balance Sheet
Calculating Months of Cash

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>389,242</td>
</tr>
<tr>
<td>Receivables</td>
<td>325,600</td>
</tr>
<tr>
<td>Investments</td>
<td>26,286</td>
</tr>
<tr>
<td>Property &amp; equipment, net</td>
<td>1,219</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>742,347</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>98,645</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>33,252</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>131,897</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets Without Restrictions</td>
<td>235,040</td>
</tr>
<tr>
<td>Net Assets With Restrictions</td>
<td>375,410</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>610,450</td>
</tr>
</tbody>
</table>

| Total Liabilities & Net Assets | 742,347 |

Operating Expenses: $867,110

Operating Expenses/12 months = Average Monthly Expenses

$$\frac{867,110}{12} = 72,259$$

Total Cash = $389,242

Average Monthly Expenses (Months of Cash) = $72,259

$$\frac{389,242}{72,259} = 5.4$$
**Activity: Calculating Your Months of Cash and Available Net Assets**

**Cash: Measuring Liquidity**

Your ability to cover short term obligations and day-to-day expenses

\[
\text{Months of Cash} = \frac{\text{Total Cash}}{\text{Total Expenses / 12 month}}
\]

**Available Net Assets: Measuring Available Resources**

Your true safety net; ability to mitigate risk and pursue opportunities

\[
\text{Months of Available Net Assets (ANA)} = \frac{\text{Total Net Assets Without Restrictions} - \text{P&E equity}}{\text{Total Expenses / 12 monthly}}
\]
**Question: How Much Cash Should We Have?**

The “right” amount of cash for an organization will depend on cash cycles, but below is how various levels might “feel”:

<table>
<thead>
<tr>
<th>Months of Expenses</th>
<th>Operating Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1 month</td>
<td><strong>Cash management is key</strong> – Decisions influenced by access to cash, may be delaying paying vendors or even staff, access to lines of credit very helpful, <strong>cash flow planning</strong> is a crucial tool.</td>
</tr>
<tr>
<td>&lt; 3 months</td>
<td><strong>Cash may feel tight at times</strong> – May have some periods of low cash, may limit acting on opportunities, lines of credit may be useful at times.</td>
</tr>
<tr>
<td>3-6 months</td>
<td><strong>Room to breathe</strong> – Can do some longer-term thinking, some funds for short-term “rainy days” but building more may support financial security</td>
</tr>
<tr>
<td>6+ months</td>
<td><strong>Handles risk</strong> – Able to withstand increasingly financial shocks such as large facility repairs, funding cuts and possibly recessions.</td>
</tr>
</tbody>
</table>
Cash Flow Projections
Visibility into the timing of cash

A visual landscape of cash flowing in and out
• This provides better understanding of the organization’s ability to tolerate risk
• Less uncertainty about whether cash will be available to meet future operating and balance sheet needs when they arise

Insight into Cash Flow vs. Cash Issues
• Cash Flow issues - a temporary lack of cash due to timing of receipts
• Cash issues - a loss of funding that produces a cash shortage with no predictable end date

Budget ≠ Cash Flow budgets cannot show the ebbs and flows of cash

Can show monthly, weekly or even daily
A Sample Cashflow Tool with Step-by-Step Instructions is Available at:  [https://nff.org/covid-19-tools-and-resources-nonprofits#tools](https://nff.org/covid-19-tools-and-resources-nonprofits#tools)
### Basic Example: Cash Flow Projection

<table>
<thead>
<tr>
<th>In thousands</th>
<th>Jan-18</th>
<th>Feb-18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning cash balance</strong></td>
<td>120</td>
<td>140</td>
</tr>
<tr>
<td><strong>Cash receipts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admission/ticket sales</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Foundation grant</td>
<td>110</td>
<td></td>
</tr>
<tr>
<td>Net assets released from restriction</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total cash receipts</strong></td>
<td>150</td>
<td></td>
</tr>
<tr>
<td><strong>Cash spent</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td><strong>Total cash spent</strong></td>
<td>130</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash in/(out)</strong></td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Ending cash balance</strong></td>
<td>140</td>
<td></td>
</tr>
</tbody>
</table>
Strategies for Managing Cash Flow
Options available to nonprofits

Have cash
- Internal cash reserves built from unrestricted operating surpluses
- Approach funders to ease restrictions on existing revenue

Do not spend cash
- Negotiate favorable payment plans with vendors and lenders
- Minimize expenses

Receive cash
- Approach funders for accelerated/advanced payments
- Change the timing of particular events or annual appeals
- Conversion of funds (ticket revenue to donations)

Borrow cash
- Draw on an external line of credit or bridge loan, if appropriate
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Review: Learning Goals

- Explore the impact the pandemic has had on the Not-for-profit sector
- Deepen our understanding of 'capital structure' and how it impacts our organizations' futures
- Learn how to assess our organizations' financial health and align decisions with real-time data
Check-Out

Please share via voice or chat your response to any of all of the following questions:

**Head**

What did you *learn* from today’s session?

**Heart**

How did today’s session make you *feel*?

**Feet**

What *actions* will you take to bring this back to your organization and community?
In order to plan effectively, nonprofit leaders must understand how their organization’s past income and expense dynamics influence its present and future finance picture. In this webinar, NFF will cover how to read income and profit/loss statements as well as how to assess an organization’s revenue and expense picture. You will learn key terms for forecasting revenue and expenses and best practices for budgeting for restricted revenue and one-time or episodic revenue and expenses.
Upcoming Sessions

- **Op in Changing World Parts 1 + 2**
  - April 15
  - April 29

- **Cash Flow Planning**
  - May 13

- **Telling Your Financial Story**
  - June 3

- **Understanding Your Mission & Money Mix**
  - June 10

- **Understanding Full Cost**
  - June 24

- **Financial Leadership for Boards**
  - July 1

- **Strategic Budgeting & Scenario Planning**
  - July 22

- **Managing Risk & Opportunities**
  - Aug 5

- **Understanding Full Cost Economics of Partnerships & Collaboration**
  - Aug 19

- **Telling Your Financial Story**
  - Sept 2

  - Sept 16
Thank You!

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